



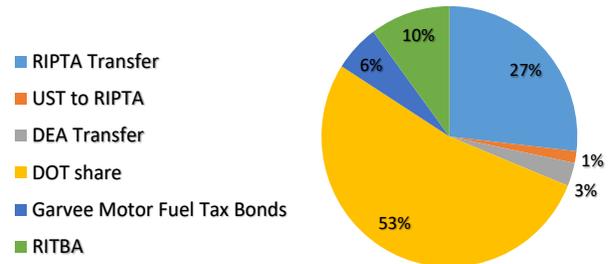
SENATE FISCAL OFFICE
ISSUE BRIEF

Motor Fuel Tax

JANUARY 10, 2023

This issue brief contains information concerning Rhode Island’s Motor Fuel Tax. It presents preliminary information about the motor fuel tax, details the various agencies, offices, and authorities that receive its appropriation, and provides information concerning the biannual projection report, which includes the per penny yield and its projected change over time.

FY2023 Motor Fuel Tax, Cents per Gallon



MOTOR FUEL TAX PRELIMINARY INFORMATION

Rhode Island’s Motor Fuel Tax (Gas Tax) is \$0.345 for each gallon purchased. The tax consists of \$0.34 per gallon of state motor fuel tax and \$0.005 per gallon for the environmental protection regulatory fee. In FY2023, the tax is estimated to yield \$146.1 million, a \$1.9 million decrease from FY2022. The following tables show the projected revenue from the gas tax, as well as its distribution schedule in Fiscal Years 2022, 2023, and 2024. Every two years, the consumer price index (CPI) is applied to the State’s statutory formula to determine the gas tax. Projections from the Office of Revenue Analysis (ORA) in November 2022, indicate that the gas tax is expected to be raised \$0.03/gallon in FY2024. The additional funds collected will be appropriated to the Department of Transportation.

Fund Transfers (In Cents)	FY2022	FY2023	FY2024
RIPTA Transfer	9.25¢	9.25¢	9.25¢
UST to RIPTA	0.50	0.50	0.50
DEA Transfer	1.00	1.00	1.00
DOT share	18.25	18.25	21.25
Garvee Motor Fuel Tax Bonds	2.00	2.00	2.00
RITBA	3.50	3.50	3.50
Total	34.5¢	34.5¢	37.5¢

Fund Transfers, Gross \$ (W/O Biodiesel Exemption)	FY2022	FY2023	FY2024
RIPTA Transfer	\$39,726,672	\$39,184,767	38,229,436
UST to RIPTA	2,043,608	2,118,096	2,066,456
DEA Transfer	4,294,776	4,236,191	4,132,912
DOT share	78,379,651	77,310,486	87,824,380
Garvee Motor Fuel Tax Bonds	8,589,550	8,472,382	8,265,824
RITBA	15,031,714	14,826,669	14,465,192
Total	\$148,065,971	\$146,148,591	\$154,984,200

Source: Office of Revenue Analysis, November 2022 Estimate

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FUND TRANSFERS

The \$0.345 tax is transferred to the following departments, authorities, and funds:

Rhode Island Public Transit Authority***\$39.2 million in FY2023, 9.25¢ per gallon***

The Rhode Island Public Transit Authority (RIPTA) is projected to receive \$39.2 million in gas tax revenue in FY2023, reflecting 26.7 percent of the Authority's \$146.9 million FY2023 Revised Budget. Gas tax revenue is the Authority's second largest source of funding and largest State subsidy. RIPTA uses gas tax revenue as a state match in order to procure additional federal funds for capital projects, often at a rate of 20.0 percent state funds to 80.0 percent federal funds. RIPTA has \$6.9 million of gas tax revenue budgeted for capital expenditures in FY2023. The Authority plans to use revenue collected from the motor fuel tax to fund a number of initiatives in FY2023, such as:

- **Paratransit Study:** The Authority will expend \$75,000 to conduct a study of their current operations and paratransit bus services, resulting in the design of a statewide program that addresses the transportation needs of seniors and individuals with disabilities. The Authority currently offers the RIDe program, which is a paratransit service for individuals whose disabilities prevent either the independent use of the fixed route system, or travel to and from bus stops. The study will specifically focus on the needs of elderly and disabled individuals who use the fixed route system but do not live within three quarters of a mile from a fixed route, as required by ADA paratransit services.
- **Fixed Route Fleet:** The Authority will expend \$6.4 million to match federal funds in order to purchase 54 buses (40- Diesel, 14 Electric) which are expected to be delivered during the 2nd Quarter of FY2023. The Authority's current fixed-route fleet plan involves replacing 40-foot vehicles after they surpass 12-years or 500,000-miles.
- **Flex Vehicles:** The Authority will expend \$173,874 to purchase 5 vehicles for the Flex route, which is a fixed-route service with destination signs and a farebox, but is operated using smaller vehicles similar to the ones performing paratransit service. The total purchase is \$869,370 and reflects \$173,874 in gas tax revenue and \$695,496 in matched federal funds.
- **East Side Tunnel:** The Authority will expend \$1.9 million to repair the East Side Tunnel. The East Side Tunnel requires structural and drainage repairs as well as safety improvements. RIPTA originally planned to use RICAP funds to complete the project, but due to issues related to COVID-19, the Authority will be using gas tax revenue as the state match.

Underground Storage Tank to RIPTA***\$2.1 million in FY2023, .5¢ per gallon***

RIPTA is projected to receive an additional \$2.1 million in FY2023 from gas tax revenue associated with the environmental protection regulatory fee and the Underground Storage Tank (UST). Pursuant to RIGL 46-12.9-11, the State charges a \$.01 environmental protection regulatory fee, per gallon pumped, which is evenly divided between the Underground Storage Tank Review Board and RIPTA. The \$0.005 appropriated to the Underground Storage Tank Review Board, which is not considered motor fuel tax, is held in the Underground Storage Tank Trust Fund, to ensure that the environmental and public health impacts of underground storage tank leaks are addressed in an effective fashion. RIPTA combines the two motor fuel tax transfers, totaling \$41.2 million, and will use them to fund the aforementioned initiatives.

Office of Healthy Aging***\$4.2 million in FY2023, 1¢ per gallon***

The Office of Healthy Aging (OHA), a program within the Department of Human Services formerly titled the Department of Elderly Affairs (DEA), is projected to receive \$4.2 million from gas tax revenue in FY2023. 21.0 percent of the transfer, or \$889,600 in FY2023, is used by OHA to carry out the Office's mission of providing services, advocacy, and public policy dedicated to the needs of Rhode Island's elderly population as well as the State's disabled population. 79.0 percent of the transfer, or \$3.3 million in FY2023, is redirected to RIPTA. RIPTA expends \$2.5 million to fund the Authority's reduced fare bus pass program for the elderly and individuals with disabilities. The reduced fare bus pass program grants qualifying low-

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income seniors and individuals with disabilities free bus travel for two years but requires individuals to pay a \$10 processing fee. RIPTA estimates that approximately 15,000 individuals have free-fare bus passes and take nearly 6.4 million trips annually. The remaining funds transferred from OHA, \$846,591 in FY2023, are combined with RIPTA's aforementioned transfers and used to fund the Authority's initiatives.

Analyst Note: The RIPTA Board Approved Budget for FY2023, released in September 2022, assumes the projections from the Office of Revenue Analysis' May 2022 Projection Report. The Budget assumes a total of \$45.9 million of gas tax revenue, a figure that includes all three fund transfers but does not include the \$2.5 million dedicated to the reduced fare bus pass program. The recent November 2022 Projection Report indicates that the Authority will receive a total of \$39.6 million, a figure that similarly includes all three fund transfers and does not include the \$2.5 million dedicated to the reduced fare bus pass program

Department of Transportation**\$77.3 million in FY2023, 18.25¢ per gallon**

The Rhode Island Department of Transportation (RIDOT) is projected to receive \$77.3 million in gas tax revenue in FY2023, reflecting 9.7 percent of the Department's \$796.7 million FY2023 Budget as Enacted. Gas tax revenue serves as the Department's primary source of funding for federal aid match, which affords Rhode Island the opportunity to receive additional federal aid to fund its transportation programs.

Additionally, RIDOT plans to use revenue collected from the motor fuel tax to fund a number of initiatives in FY2023 such as:

- **Winter Maintenance Operations:** RIDOT will expend \$14.5 million in gas tax revenues to fund the winter maintenance initiative. This funding is used to pay vendor contracts in addition to purchasing salt, sand, and de-icers to ensure roadways are clear and free of winter debris. The initiative includes \$5.2 million for snowplowing and sanding, \$3.8 million for road maintenance and repairs and \$2.1 million in overtime wages.
- **Other Maintenance Division Expenses:** RIDOT will expend \$12.1 million in gas tax revenues to fund maintenance expenses, which includes landscaping and the removal of debris, sand and graffiti.
- **Vehicles/Equipment Maintenance Expenses:** RIDOT will expend \$3.6 million in gas tax revenues for capital purchases such as vehicle and equipment upgrades. The planned purchases intend to replace the Maintenance Division's existing vehicle fleet and includes heavy trucks, sweepers, loaders, backhoes, and tractors.
- **RhodeWorks Legal Services:** RIDOT will expend \$3.4 million from gas tax revenues for legal services related to the State's tolling program. In July 2018, the Rhode Island Trucking Association as well as the American Trucking Associations, Cumberland Farms Inc., M&M Transport Services Inc., and New England Motor Freight filed a lawsuit against Rhode Island, challenging the constitutionality of the State's tolling program. The State is being represented by the law firm Adler, Pollock and Sheehan. On September 21, 2022, Rhode Island received a court order requiring the cessation on the collection of truck tolls, but the ruling is currently being appealed.

GARVEE Motor Fuel Tax Bonds**\$8.5 million in FY2023, 2¢ per gallon**

The State is projected to receive \$8.5 million from gas tax revenue as an appropriation to reduce the debt associated with the State's Grant Anticipation Revenue Vehicle (GARVEE) bonds in FY2023. GARVEE bonds enable the State to pay debt service and other bond-related expenses with future Federal-aid highway funds. The bonds generate up-front capital for major highway projects at generally tax-exempt rates and enable the State to construct projects earlier than if using traditional pay-as-you-go grant resources.

Rhode Island Turnpike and Bridge Authority**\$14.8 million in FY2023, 3.5¢ per gallon**

The Rhode Island Turnpike and Bridge Authority (RITBA) is projected to receive \$14.8 million from gas tax revenue in FY2023, reflecting 42.3 percent of the Authority's total operating revenue of \$38.0 million, per the FY2023 Board Approved Budget. The Authority's total operating expenses are \$13.8 million in

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FY2023, which could be sourced entirely from the gas tax revenue. These expenses include bridge inspections, insurance, contractual services, wages/salaries/benefits, and others. The Authority also uses gas tax revenue to repair and maintain the Jamestown Verrazano Bridge, the Mount Hope Bridge, the Newport Pell Bridge, and the Sakonnet River Bridge.

Analyst Note: The RITBA Board Approved Budget for FY2023, released in July 2022, includes projections from the Office of Revenue Analysis' May 2022 Projection Report. The Budget assumed \$16.1 million of gas tax revenue.

BIANNUAL PROJECTION REPORT

The Office of Revenue Analysis provides a projection of the motor fuel tax revenue biannually, in both May and November. The most recent report, released in November 2022, includes preliminary figures from FY2022, as well as projected figures for FY2023, FY2024, FY2025, FY2026, FY2027, and FY2028. The figures include an estimated appropriation for each office, agency or authority and projected increases to the motor fuel tax, in addition to the tax's per penny yield and its projected change over time.

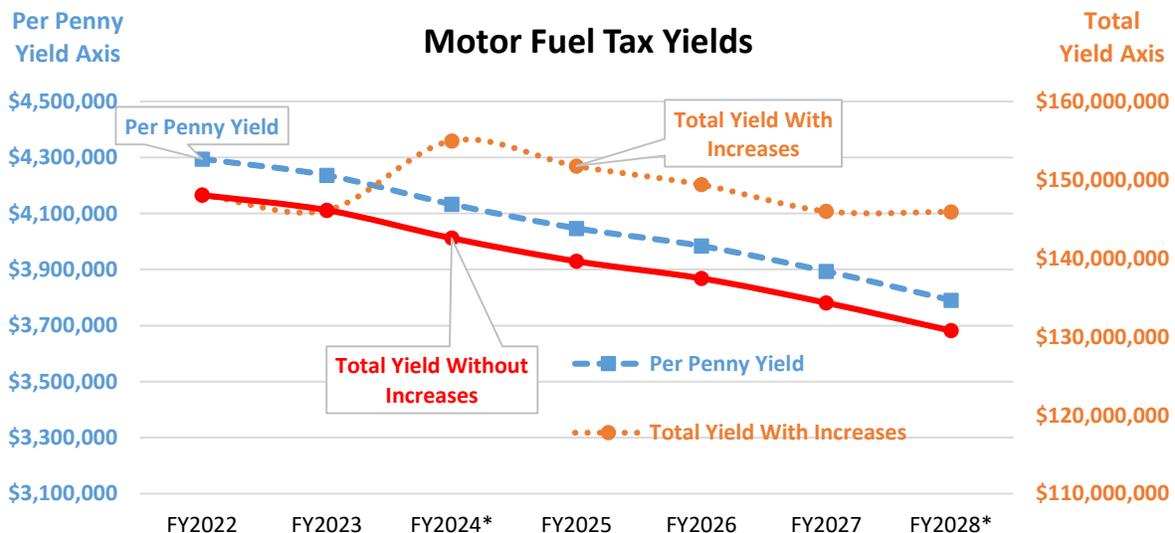
	Per Penny Yield	Projected Growth in Yield
FY2022	\$4,294,775	5.42%
FY2023	4,236,191	-1.36%
FY2024*	4,132,912	-2.44%
FY2025	4,047,320	-2.07%
FY2026	3,984,083	-1.56%
FY2027	3,893,775	-2.27%
FY2028*	3,790,886	-2.64%

Source: Office of Revenue Analysis November 2022 Estimate

** Indicates a year with a proposed increase to the motor fuel tax.*

The per penny yield is an estimate of the revenue that each penny of the motor fuel tax will generate. In FY2023, the per penny yield is \$4.2 million. The total projected revenue can be calculated by multiplying the per penny yield by 34.5, the state's current gas tax.

The following graph displays the per penny yield and the total yield, including both the total yield with the proposed increases and without them. With the proposed increases, the projections indicate that the motor fuel tax's total yield will remain above \$145.9 million through FY2028. However, if the motor fuel tax remains salient, projections indicate that the total yield will decrease to \$130.8 million by FY2028.



Source: Office of Revenue Analysis November 2022 Estimate

** Indicates a year with a proposed increase to the motor fuel tax.*

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The projections and projected growth in yield indicate that motor fuel tax revenue will decrease overtime. This could be related to the recent rise in gas prices, a decline in travel, or a shift from gas-powered vehicles to ones powered by electricity. The economic model that projected the estimates used actual revenues through September 2022, and included variables such as Rhode Island personal consumption expenditures, New England gas prices, the U.S. average miles per gallon of new light vehicles, and a COVID-19 pandemic event variable. Additionally, individuals who drive electric vehicles do not pay the motor fuel tax but do enjoy the same access and use of state roads as those who do. If this trend were to continue, as well as the declining growth in yield, a reliance on motor fuel tax could exacerbate funding gaps in the coming years.