

Highway Safety Fee Timeline

Overview

Laws 2018, Chapter 265 (HB 2166) established a highway safety fee to fund 110% of the Department of Public Safety (DPS) Highway Patrol budget. Laws 2019, Chapter 268 (HB 2752) repeals the fee on July 1, 2021. This report provides a summary of the evolution of the fee level.

History

February 2018

JLBC published its HB 2166 fiscal note in February 2018. The bill requires the Arizona Department of Transportation (ADOT) to collect a highway safety fee at the time of the initial vehicle registration application and at each subsequent renewal. The fee level is determined by the ADOT director. The highway safety fee must fund 110% of the Highway Patrol budget.

Prior to publication of the fiscal note, JLBC asked ADOT for their fiscal analysis of the bill. ADOT did not respond. As a result, we developed our own estimate of the bill's impact.

There is no specific delineation of the Highway Patrol budget in the DPS annual appropriation. Using other public materials, JLBC estimated the agency's Highway Patrol budget to be \$135 million as part of the fiscal note. The 10% mark up would require the fee to raise \$149 million. As the bill did not specify any exemptions to the fee, JLBC used the total number of registered vehicles in the state, which is 8.3 million. To generate \$149 million from 8.3 million vehicles, JLBC estimated that the fee would be set at \$18.06.

April 2018

There was no further information on the fiscal impacts of the highway safety fee until the last week of budget negotiations. At that time, the Governor's Office estimated the cost of the Highway Patrol at \$161 million. Since there is no definitive source of Highway Patrol funding, that estimate was plausible. With the 10% mark-up, the fee was estimated to generate \$177 million.

In addition, the Governor's Office estimated the number of eligible vehicles at 7.4 million. Compared to JLBC, they excluded vehicles with permanent one-time registrations, such as commercial trailers weighing over 10,000 pounds and non-commercial trailers. Based on these numbers, the Governor's Office estimated that the fee would be \$23.80.

The final FY 2019 DPS budget then added approximately \$7 million of Highway Patrol-related costs for new officers and retirement costs. This brought the total implied Highway Patrol budget to about \$167 million, or about \$183 million after the 110% factor. This would translate into a fee of \$24.73.

Summer 2018

JLBC had some initial discussion with the Governor's Office about technical issues surrounding the fee. We asked questions concerning their derivation of the Highway Patrol budget level. We viewed their initial response as incomplete and they did not respond to our follow-up inquiry.

November/December 2018

On November 29, 2018, ADOT announced that the fee would be \$32 per vehicle. The fee is effective December 1, 2018 for newly registered vehicles and January 1, 2019 for renewals. The Governor's Office, ADOT, and DPS did not communicate with us before announcing the new fee. As a result, we asked ADOT questions about how the \$32 level of the fee was derived. On December 7, 2018, the department responded to our request.

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Response

According to the response, ADOT used a slightly higher estimate of \$185 million for the 110% calculation, compared to our end-of-session estimate of \$183 million. The \$185 million is based on a DPS analysis of how much each of the department's subprograms contribute to the Highway Patrol function, through both direct and indirect costs. Of the \$185 million, \$110 million reflects the Highway Patrol functions of the Patrol program, Border Strike Task Force program and Commercial Vehicle Enforcement program, \$58 million is for indirect costs supporting Highway Patrol functions such as motor vehicle fuel and administrative support, and \$17 million is for the 10% surcharge mandated by statute.

ADOT's most significant change, however, was to lower the number of applicable vehicles to 5.8 million. Lowering the number of vehicle increased the fee amount to \$32. ADOT used a starting point estimate of 8.5 million vehicles to account for net registered vehicle growth since the February 2018 fiscal note's publication.

The decrease in number of vehicles is due to ADOT's designation of vehicles as not paying the fee in 2019 due to timing issues or being fully or partially exempt from the fee. Please see *Table 1* below for a summary of those changes.

The department designated the following categories as ineligible for the fee due to timing issues:

- Trailers that have completed their one-time permanent registration. Trailers newly registered in 2019, however, pay a one-time highway safety fee for the standard \$32.
- Vehicles that have 2- or 5-year registrations that will not pay the fee until the owners renew. ADOT's analysis also assumes that all customers with multi-year registrations expiring in 2019 will opt for the standard one-year registration, resulting in a highway safety fee of \$32 rather than \$64 for 2-year registration or \$160 for 5-year registration. A new \$64 2-year fee may discourage some multi-year registrations. We do not believe, however, it will entirely eliminate its use, as ADOT suggests.

ADOT also designated the following categories as fully exempt from the fee:

- Off-highway vehicles used exclusively not on roads and highways.
- Vehicles owned by governmental entities.
- Other vehicles owned by non-profit organizations and certain types of individuals associated with military service.

Beyond those discretionary decisions, ADOT also discovered that it recorded 852,000 transactions for disability placards and temporary permits, more than 10% of total transactions, as vehicle registrations. Those transactions would not be involved in the fee calculation. In addition, golf carts and primarily but not exclusively off-highway vehicles are eligible for a reduced \$5 highway safety fee.

Registered Vehicles	8,452,000
Permanently Registered Trailers	(822,000)
Multi-Year Registrations	(500,000)
Disability Placards or Temporary Permits	(852,000)
Exclusively Off-Highway OHVs	(271,000)
Government Vehicles	(116,000)
Other Exemptions	(35,000)
Reduced \$5 HSF Eligible Vehicles	<u>(99,000)</u>
Full Fee Eligible Vehicles	5,757,000

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May 2019

The FY 2020 budget modified the fee and eliminated it starting in FY 2022. Laws 2019, Chapter 268 (HB 2752) alters the highway safety fee as follows:

1. The bill repeals the highway safety fee on July 1, 2021.
2. The bill repeals the statutory requirement that the Director of ADOT establish the highway safety fee at 110% of the Highway Patrol budget.
3. The bill removes the rulemaking exemption for ADOT to determine the amount set for the highway safety fee.

The FY 2020 budget estimates the fee will remain at its current \$32 level until it is repealed at the end of FY 2021.