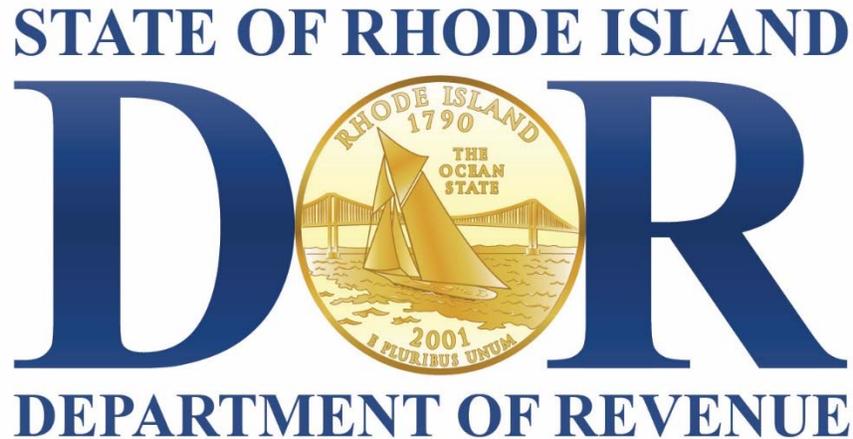


STATE OF RHODE ISLAND

Governor Daniel J. McKee



**Standardization and
Feasibility Report:
Motor Vehicle Excise Tax**

R.I. Gen. Laws § 44-34.1-2(b)(6)

**Office of Revenue Analysis
Division of Municipal Finance**

March 29, 2023

Foreword

This report is submitted to the General Assembly to fulfill the requirement in Rhode Island General Laws § 44-34.1-2(b)(6) titled “City, town and fire district reimbursement.” This report was prepared by the Department of Revenue (DOR), Office of Revenue Analysis (ORA) at the request of the Acting Director of Revenue, Jane E. Cole.

Discussion of the Financial Impact of the Continuation of the Current Law Motor Vehicle and Trailer Excise Tax Phaseout

Rhode Island General Laws § 44-34.1-2(b)(6) states that “[b]eginning on January 1, 2021, the director of the department of revenue shall file an annual report for the consideration of the general assembly with the president of the senate, speaker of the house, chairperson of the senate committee on finance and chairperson of the house committee on finance, containing recommendations and findings as to the feasibility of the motor vehicle excise tax phase-out in each year until the phase-out is complete.”

This section of the report considers the financial impact of continuing the motor vehicle and trailer excise tax elimination under current law. As of the enactment of the state’s FY 2023 budget, the motor vehicle and trailer excise tax phase-out was accelerated one year forward to allow the tax to be fully phased out in FY 2023 for all municipalities. The one exception to this was the acceleration of the excise tax in East Providence, whose local fiscal year is different from the state’s and therefore will be fully phased-out during the state’s FY 2024. Even though this report is no longer required after the completion of the phase-out, DOR has chosen to issue a final FY 2023 version due to the delay in the East Providence phase-out.

To assess the financial impact, DOR used the total general revenues forecast generated by ORA for the FY 2023 – FY 2028. This forecast directly incorporates the general revenue estimates adopted for FY 2023 and FY 2024 at the November 2022 Revenue Estimating Conference. Forecasts were generated for each general revenue item and then aggregated to arrive at the forecast for total general revenues.¹ The forecasting methodologies employed to derive the estimate of individual revenue items varies considerably depending on the specific revenue item, ranging from holding an estimated revenue amount constant over time to complex statistical models that use autoregressive integrated moving average (ARIMA) processes with a number of explanatory variables. The forecast is based on current law and does not include any proposed changes to tax bases or rates or fees other than the assumption that the hospital licensing fee will be continued at the amount that was included in the FY 2022 preliminary audited budget.²

The table below shows the forecast of total general revenues for FY 2023 – FY 2028, the change in total general revenues fiscal year to fiscal year, DOR’s projection of motor vehicle excise tax (MVET) phaseout reimbursement aid for FY 2023 – FY 2028, the change in MVET phaseout

¹ There are 28 individual general revenue items that comprise total general revenues.

² The FY 2022 hospital licensing fee revenue was \$171,955,989 and assumes a licensing fee rate of 5.725% on the hospital fiscal year 2020 net patient revenues. Hospital fiscal year net patient revenues typically impact the state’s hospital licensing fees on a two-year lagged basis.

reimbursement aid fiscal year to fiscal year, and the difference between the change in total general revenues and the change in MVET phaseout reimbursement aid for each fiscal year:

Comparison of Projected Total General Revenues and Motor Vehicle Excise Tax Phaseout Reimbursement Aid, FY 2023 – FY 2028

All Figures in Millions	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Total General Revenues	\$5,260.4	\$5,283.9	\$5,355.0	\$5,518.2	\$5,669.9	\$5,842.0
<i>Change</i>	\$52.6	\$23.5	\$71.1	\$163.2	\$151.7	\$172.1
MVET Phaseout Reimbursement Aid	\$230.6	\$234.7	\$234.7	\$240.9	\$249.0	\$256.2
<i>Change</i>	\$104.3	\$4.1	(\$0.0)	\$6.2	\$8.2	\$7.1
Difference in the Change in Total General Revenues and the Change in MVET Aid	(\$51.8)	\$19.4	\$71.1	\$157.0	\$143.6	\$165.0
MVET Aid as a % of Total General Revenues	4.38%	4.44%	4.38%	4.37%	4.39%	4.38%
<i>Change in MVET Aid as a % of Total General Revenues</i>	1.98%	0.08%	0.00%	0.11%	0.14%	0.12%

As is clear in the table above, motor vehicle excise tax (MVET) phaseout reimbursement aid is projected to comprise approximately 4.4% of total general revenues in each fiscal year forecasted. Note the only year the change in MVET phaseout reimbursement aid exceeds the change in total general revenues is for FY 2023, the first year the tax is fully phased out for all municipalities. Due to the accelerated phase-out, two years of phase-out was condensed into one as part of the FY 2023 budget process. Therefore, one could argue that, for each year of the MVET phaseout, enough resources are available to continue the program as it is currently configured.

As directed by statute, this study examines the feasibility of general revenues to cover the expense of the MVET phaseout reimbursement aid only from a general revenue perspective. DOR does not weigh the expense of MVET phaseout reimbursement aid against other budgeted expenditures. This is beyond DOR’s expertise and, as such, beyond the scope of this study. The revenues noted above, however, could be used for other budgeted expenditures in any given fiscal year. DOR defers to the Office of Management and Budget and the House and Senate Fiscal Offices as to the analysis of potential expenditure priorities.

It is important to note that the DOR’s assessment of the fiscal impact of the continuation of the motor vehicle and trailer excise tax phaseout does not consider projected state budget deficits over the FY 2024 – FY 2028 period. At the time of publication of this report, the most recent publicly available projections of state budget deficits were those contained in Governor McKee’s FY 2024 Budget Proposal which was submitted to the General Assembly for consideration on January 19,

2023.³ In the FY 2024 Proposed Budget, based on the FY 2024 Deficit Forecast, projected a surplus of \$8.8 million in FY 2024. In FY 2025 through FY 2028, expenditures will exceed revenues in each of the out-years projected through FY 2028, ranging from \$116.0 million in FY 2025 to \$40.2 million in FY 2028. It is fair to say that consideration of the projected budget deficits for the FY 2025 – FY 2028 period should be incorporated into any policy decision regarding the fiscal impact of the continuation of the motor vehicle and trailer excise tax phaseout.

Discussion of the Feasibility of Standardizing Rhode Island’s Taxation of Motor Vehicles and Trailers

Rhode Island General Laws § 44-34.1-2(b)(6) states that “[F]or fiscal year 2020 and thereafter, the department of revenue shall assess the feasibility of standardizing the motor vehicle and trailer excise tax calculation methodology across all cities, towns, and fire departments. Based on this assessment, the department of revenue *may* make recommendations for changes to the motor vehicle and trailer excise tax calculation methodology.” (Emphasis added).

Because the FY 2023 enacted budget accelerated the end of the motor vehicle excise tax phase-out to conclude in FY 2023, DOR has chosen not to analyze or make recommendations concerning a tax which has been eliminated.

³ See p. B-1 of the Executive Summary of Fiscal Year 2024 Budget Proposal which is available on the Rhode Island Office of Management and Budget’s website at <https://omb.ri.gov/budget-office/fy-2024-governors-budget>.