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To: Managers, Clerks, Finance Directors  
From: Meghan MacKillop, Legislative and Policy Advocate  
Date: August 30, 2023  
Subject: Highway User Tax Fund Revenue Estimates

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Each year, the CDOT Office of Financial Management and Budget (OFMB) forecasts expected revenues in the Highway Users Tax Fund (HUTF) for upcoming years. CML uses these HUTF forecasts to assist municipalities in developing their annual road and bridge budgets. We and the OFMB also utilize updated information from the Department of Revenue on lane miles, bridge deck area, vehicle miles traveled, and vehicle registrations. The OFMB team maintains an annual revenue model, which is updated each quarter to help better predict future revenues. In addition to Department of Revenue information, OFMB uses national economic performance indicators, state population and demographic data, forecasted and aggregated annual interest rates on new car loans and retail gasoline prices, and estimated vehicle costs to inform the model. Beginning this fiscal year, OFMB will provide a quarterly revenue estimate for state transportation revenue, as well as local government HUTF revenue allocations, alongside the quarterly state revenue forecast. By releasing quarterly information, the annual HUTF estimates that CML provides will be more up-to-date and accurate.

### **2023 HUTF Annual Revenue Forecast**

The HUTF forecast from OFMB predicts a roughly \$4 million increase from 2023 to 2024. According to OFMB, these revenues should trend upward over the next few years as more revenue from fees created in SB21-260 is collected. This trend is independent of trends in vehicle miles traveled and gasoline sales. During the 2022 legislative session, the General Assembly passed legislation that delayed the implementation of the road usage fee, created in SB21-260, and extended the reduction in FASTER fees through 2023; however, those reductions in revenue ended in April of 2023.

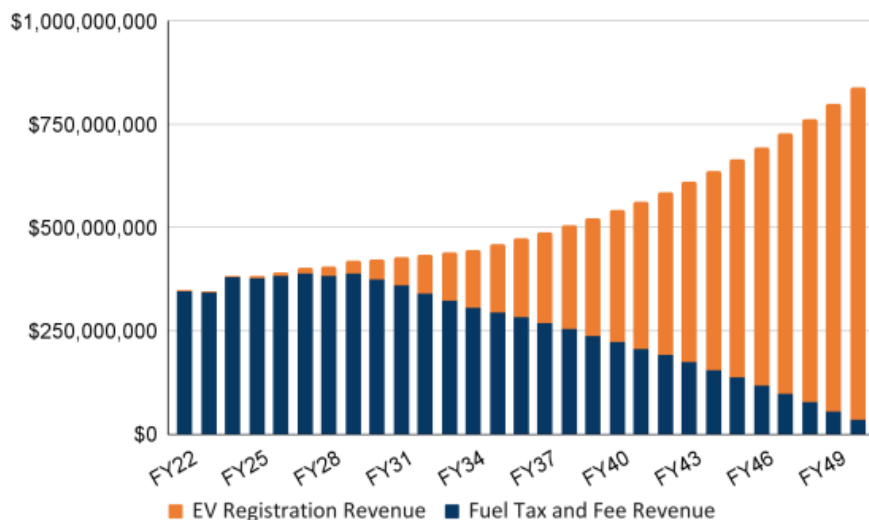
In addition to increased revenue from enterprise fees, vehicle miles traveled (VMT) have returned to pre-pandemic levels. In fact, VMT has exceeded previous estimates and risen to levels far greater than 2019 numbers. In addition to VMT increasing overall HUTF revenue, the increasing popularity of

electric vehicles and continued increased revenue from enterprise fees created by SB21-260 impact municipal distributions of HUTF funds.

Although gasoline consumption revenue has steadily increased since 2019, OFMB analysts predict this revenue source will decrease over time. However, cities and towns can expect other revenue from SB21-260, namely the newly created electric vehicle registration fee, to compensate for this decrease. As people transition from fuel-dependent vehicles to electric vehicles, revenue from the electric vehicle registration fee will replace the lost revenue from fees and taxes on fuel.

**Electric Vehicle Adoption.** The number of electric vehicles in Colorado is expected to increase substantially in the coming decades, and OFMB estimates that there will be about 960,000 electric vehicles on the road by 2030. Increasing the number of electric vehicles on the road will have several impacts on state transportation revenue, as well as municipal revenue. While the Department of Revenue expects revenue from taxes and fees on gasoline and diesel to decrease over time, additional revenue from the state’s electric vehicle registration fees (created in SB21-260) is expected to largely offset these revenue losses in future years. The chart below illustrates the comparison of fuel tax and fee revenue compared to electric vehicle registration revenue to 2050. Revenue from electric vehicle fees is expected to overtake fuel tax and fee revenue by around 2040.

State Fuel Revenue Vs. EV Registration Revenue



Source: Colorado Department of Transportation

**SB21-260 Fee Revenue.** Senate Bill 21-260, "Sustainability of the Transportation System," established several new transportation fees, including new fees on gasoline and diesel, new electric vehicle registration fees, retail delivery fees for online orders, and rideshare fees. This bill also created several transfers from the state General Fund to CDOT. Revenue from these new fees is split between CDOT, counties, municipalities, and several state enterprises. These sources are described in additional detail below. Overall, OFMB estimates that SB21-260 revenue will increase CDOT revenue by more than \$200 million annually.

**HUTF Revenue Estimates**

**Revised 2023 HUTF Revenue Estimate – last six months.** Revenue Estimate 1 is an estimate of July through December 2023 municipal HUTF revenues and is provided to assist in revising your current year HUTF estimate. CML recommends adding your first six months of actual revenues to Estimate 1 for a revised 2023 HUTF revenue estimate.

**2024 HUTF Revenue Estimate.** Revenue Estimate 2 is the aggregate municipal HUTF revenue estimate for January through December 2024. Please note that your municipality's HUTF revenue may not track the growth of the total fund. Each municipality's HUTF share is based on the number of vehicles and center-line miles in each community relative to the same statistics in other municipalities. These figures are recalculated annually. Consequently, your municipality's percentage share may change whether the municipality's own statistics change.

The following table lists the sources of the municipal HUTF Revenue estimates:

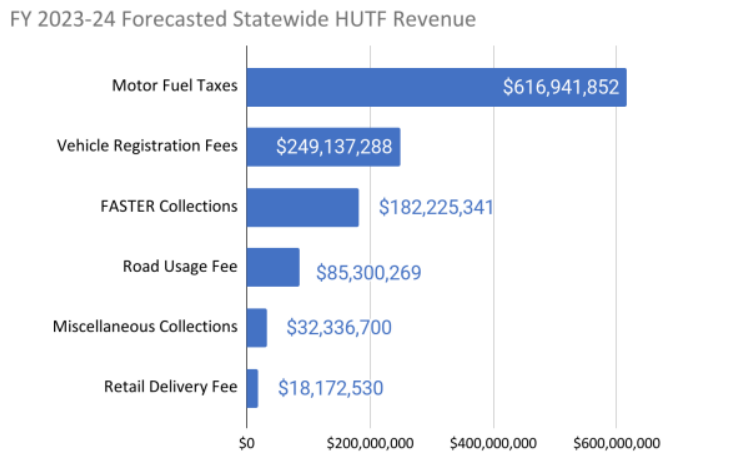
<b>Aggregate HUTF Revenue Estimates Distributed to Municipalities</b>		
	<b>Estimate 1</b>	<b>Estimate 2</b>
	Jul-Dec 2023	Jan-Dec 2024
First Stream	\$9.5	\$18
Second Stream	\$60.1	\$129.5
Retail Delivery Fee	\$.22	\$2.7
<b>Total HUTF to Municipalities</b>	<b>\$70</b>	<b>\$151</b>

*Estimates provided by CDOT OFMPB are for each Fiscal Year, and CML staff calculates the estimates for a Calendar Year.*

**Estimates for each municipality are attached.** Please remember that these are only estimates based on the Colorado Department of Transportation's revenue projections. Additionally, last year, the estimates included a one-time distribution from the General Fund to account for the temporary delay of the road usage fee implementation. That one-time distribution is not included in Estimate 1.

### Highway User Tax Fund Background

The HUTF is a statutorily defined, state-collected, locally shared revenue distributed monthly to the state, counties, and municipalities. The revenue that flows through HUTF includes state-levied taxes and fees associated with the operation of motor vehicles in the state. The state treasurer distributes the HUTF proceeds between CDOT, the Colorado State Patrol, the Department of Revenue, counties, and municipalities according to statutory formulas and annual appropriations. The forecasted FY 2023-24 revenue sources are shown in the figure below.



Source: Colorado Department of Transportation

**Motor Fuel Tax Collection.** Motor fuel taxes are currently the state's primary source of transportation revenue. Colorado has an excise tax of 22 cents per gallon for gasoline and 20.5 cents for diesel and special fuel.

**Vehicle Registration Fees.** The state collects several different fees at the time of vehicle registration. Age-based fees and weight-based fees are both deposited directly into the HUTF. The state also assesses a \$50 annual fee on plug-in hybrid and battery-electric vehicles. Of this fee, 60 percent is allocated to the HUTF, and 40 percent is allocated to the Electric Vehicle Grant Fund in the Colorado Energy Office. As noted above, this fee will continue to increase with inflation. Fees are distributed through the HUTF.

Additionally, SB21-260 created an additional road usage equalization registration fee on regular and commercial plug-in electric vehicles. This fee will also increase annually with inflation. In lieu of the standard equalization fee, electric commercial vehicles will pay an annual registration fee based on weight. For FY 2022-23, this fee is \$50 for vehicles 10,001 pounds to 16,000 pounds; \$100 for vehicles 16,001 pounds to 26,000 pounds; and \$150 for vehicles greater than 26,000 pounds. Beginning in FY 2023-24, this fee will be annually adjusted for inflation.

**FASTER Revenue.** In 2009, the General Assembly passed SB09-108, also known as the Funding Advancements for Surface Transportation and Economic Recovery (FASTER) Act. This bill created new motor vehicle fees, fines, and surcharges to fund road, bridge, and public transit projects. The Road Safety Surcharge applies to every registered vehicle, ranging between \$16 and \$39, depending on the vehicle. The amount of the Road Safety Surcharge is set in statute (§43-4-804(1) C.R.S.). SB21-260 temporarily reduced the Road Safety Surcharge fee through 2024. For all registration periods between January 1, 2022, and January 1, 2024, each Road Safety Surcharge is reduced by \$5.55. After 2024, this amount will increase.

FASTER also established a late registration fee, which is charged when a motor vehicle is registered after a one-month grace period of its annual registration date. The cost is \$25 for each month the vehicle registration is late, up to \$100. The county office that collects the late registration fee retains \$10 of the fee. FASTER revenue also includes the daily vehicle rental fee and overweight vehicle surcharges.

**Road Usage Fee.** SB21-260 created the road usage fee, assessed on each gallon of gasoline and diesel in addition to the motor fuel tax. This fee will be phased in according to a fee schedule between FY 2022-23 and FY 2031-32. After 2033, this fee will be annually adjusted for inflation based on the National Highway Cost Construction Index. The state began collecting revenue from this fee in April 2023.

**Miscellaneous Collections.** This category includes revenue from traffic penalties and judicial collections, interest earnings, and various cash program revenues.

**Retail Delivery Fees.** SB21-260 imposed new fees on retail deliveries that are subject to the state sales tax. These fees are assessed by the state, the Statewide Bridge and Tunnel Enterprise, and four new enterprises created in the bill and are collected by the retailer from the purchaser. The table below shows the initial fee rates. These fees will be adjusted for inflation in subsequent years based on the Denver-Aurora-Lakewood Consumer Price Index. The state’s share of this revenue is distributed to the HUTF and the Multimodal Transportation and Mitigation Options Fund. SB23-143 created an exemption from the fees for businesses with retail sales less than or equal to \$500,000 in the prior year.

<b>Retail Delivery Fees</b>	<b>Fee Rate</b>
State (Highway Users Tax Fund and Multimodal Options Fund)	8.4 cents / delivery
Bridge and Tunnel Enterprise	2.7 cents / delivery
Community Access Enterprise	6.9 cents / delivery
Clean Fleet Enterprise	5.3 cents / delivery
Clean Transit Enterprise	3.0 cents / delivery
Air Pollution Mitigation Enterprise	0.7 cents / delivery
<b>Total of Retail Delivery Fees</b>	<b>27.0 cents / delivery</b>

*Source: Colorado Department of Transportation*

## **HUTF Revenue Distribution**

HUTF revenue is allocated based on different statutory formulas, described below.

**First Stream Revenue.** First stream HUTF revenue consists of the following:

- Proceeds from the first \$0.07 of fuel excise taxes;
- Vehicle license plate, identification plate, and placard fees;
- Driver license, motor vehicle title and registration, and motorist insurance identification fees;
- Proceeds from the passenger-mile tax levied on commercial bus services; and
- Interest earnings.

After “off-the-top” appropriations are made to the Colorado State Patrol and the Department of Revenue, 65 percent of first stream revenue is distributed to CDOT, 26 percent is allocated to counties, and 9 percent is distributed to municipalities.

**Second Stream Revenue.** Second stream HUTF revenue consists of motor fuel taxes in excess of the first \$0.07 and age-based registration fees. Of this revenue, 60 percent is distributed to CDOT, 22 percent to counties, and 18 percent to municipalities.

***FASTER Revenue.*** FASTER revenue includes the fees, surcharges, and fine revenues SB09-108 authorized. Of this revenue, \$15.0 million is set aside for spending on transit projects, and the remaining funding is distributed using the same formula as second stream revenue, with municipalities receiving 18 percent.

***Road Usage Fees.*** Revenue from these fees, established by SB21-260, is distributed to the HUTF using the same formula as second stream revenue, with municipalities receiving 18 percent.

***Retail Delivery Fee.*** Of the revenue generated from the state's portion of the Retail Delivery fee, established by SB21-260, 71.1 percent is distributed to the HUTF, and 28.9 percent is distributed to the Multimodal Transportation and Mitigation Options Fund. Of the revenue deposited in the HUTF, 40 percent is paid to the State Highway Fund, 33 percent is paid to counties, and 27 percent is paid to municipalities. Revenue from the Retail Delivery Fee may be used for transit-related projects needed to integrate different transportation modes.

***Municipal Share.*** Each municipality receives a share of the municipal portion of the HUTF based on a formula that considers the number of vehicles registered and the center line miles of streets in each municipality relative to the same data in other municipalities. Generally, 80 percent of the distribution is based on the number of vehicles registered and 20 percent on the center line miles of streets in a community. Each municipality's percentage share is recalculated annually in July and is based on:

- previous year's vehicle registration figure as certified by the Department of Revenue to the State Treasurer; and
- previous year's miles of open, used, and maintained streets as certified to the Treasurer by CDOT, who uses data from each entity's Annual Certification of Condition and Mileage Report (Section 43-4-208, C.R.S.).

### **Required Annual Reports**

As a condition of continuing to receive monthly HUTF payments, state law requires that municipalities annually submit two reports: the Certification of Condition and Mileage Report (due March 1) and the Annual Receipts and Expenditures Report (due June 30). If these reports are not provided to the state in a timely manner, by statute (43-4-209, C.R.S.), a jurisdiction's HUTF payments will be withheld for up to six months or until the reports have been provided to the state. After six months, if the reports have not been provided, a municipality's withheld HUTF payments will be paid to your county.

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