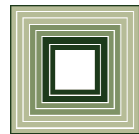


21st Century Transportation Committee Finance Subcommittee

Highway Fund and
Highway Trust Fund Transfers
Diesel Tax Options

January 16, 2008



FISCAL RESEARCH DIVISION
A Staff Agency of the North Carolina General Assembly

Outline

- Funding Sources
- Department of Transportation's Budget Overview
- Highway Fund Transfers
 - Transfers to other state agencies for transportation-related functions
- Highway Trust Fund Transfers
 - Transfer to the General Fund
- Diesel Tax Rate in North Carolina
- Diesel Tax Rates across States
 - Weight Mile Tax
- Revenue Options
- Questions

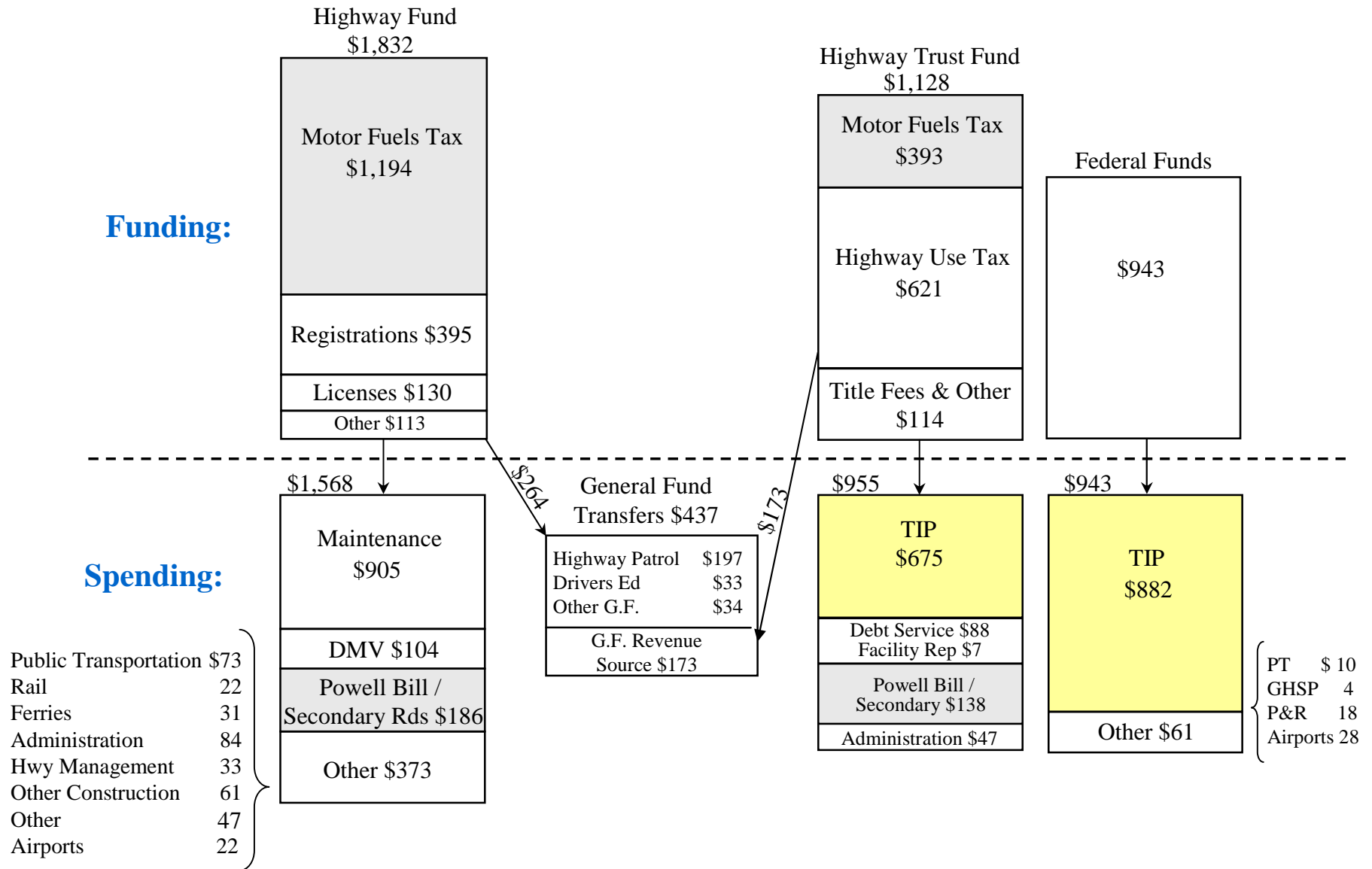
Highway Fund and Highway Trust Fund

- Highway Fund was established in 1921
 - Provides funding for the maintenance of roads, Division of Motor Vehicles, other transportation programs (public transportation, ferries, rail services), State Highway Patrol, and other State agencies' programs
- Highway Trust Fund was created in 1989
 - Provides funding for construction of particular highway and road projects, including the Intrastate System, urban loops, secondary roads, and supplemental funding for municipalities under the Powell Bill

Highway Fund and Highway Trust Fund

	Highway Fund	Highway Trust Fund
Allocation Method	Appropriation (Some by statutory formula)	Statutory Formula (G.S. 136-176)
Budget 2007-08	\$1.8 Billion	\$1.1 Billion
Major Sources of Funds	Motor Fuels Tax DMV Licenses and Fees	Highway Use Tax Motor Fuels Tax
Major Programs	Maintenance (49%) State Highway Patrol DMV Secondary road construction Aid to Municipalities Public Transportation, Rail, Ferry, Aviation Driver Education Other	Construction •Intrastate 61.95% •Urban Loops 25.05% •Secondary Roads 6.5% •Aid to Municipalities 6.5% •Transfer to General Fund (Statutory amount: \$172+ million)

Highway Fund, Highway Trust Fund & Federal Funds 2007-08 (\$ in Millions)



Tax Revenue Transfers

Motor Fuel Tax Transfers

- 1/2 cent per gallon – credited to the Leaking Underground Storage Tank Cleanup Fund (commercial, noncommercial, and Water and Air Quality Account) – approximately \$27 million
 - G.S. 105-449.125
- 1/6th of 1 percent of the Highway Fund is credited to the Wildlife Resources Fund - \$1,987,724 in FY2006-07
 - G.S. 105-449.126

Other Transfers

- 8% on short term vehicle leases - \$49.3 million for FY2006-07
 - G.S. 105-187.9 (see slide 9)

Highway Fund Transfers	Law & Summary	FY2007-2008
Dept Agriculture - Gas Inspection Fee	G.S. 119-18 Inspection of motor fuel pumps (part of the .25 cpg used for administration)	\$4,809,103
DENR Leaking Underground Storage Tank Fund	G.S. 119-18 Part of the .25 cent per gallon, prescribed in law	\$4,885,830
Dept Rev - Gas Tax Collection	G.S. 119-18 Administration of the motor fuels tax collections (part of the .25 cent per gallon)	\$5,405,067
DOR-IRP Auditors	G.S. 105-449.43. Auditing the International Registration Plan program for NC participants	\$373,494
Dept of Health & Human Services - Chemical Testing	July 14, 1980 Executive Branch decision to transfer program to Division of Public Health to perform service	\$673,803
State Highway Patrol	G.S. 20-194 – State Highway Patrols expenses are to be paid for by the Highway Fund	\$195,055,818
Driver Education Program	G.S. 20-88.1 Driver Education - Funds paid to Department of Public Instruction, calculated based on the number of 9 th graders (average daily membership) and distributed to Local Education Agencies)	\$33,285,956
Transfer to General Fund	G.S. 105-164.44D Reimbursement for sales tax exemption for purchases by the Department of Transportation	\$18,190,000
Reserve	Session Law 2005-345 Continuation budget for Global TransPark	\$1,600,000
State Fire Protection Grant	G.S. 58-85A-1 Creation of Fund; allocation to local fire districts and political subdivisions of the State - State Fire Protection Grant Fund	\$150,000
	Totals	\$264,429,071

Highway Trust Fund Transfers

\$172+ Million Annually

- Prior to 1989, a 2% sales tax was levied on the sale of motor vehicles with proceeds going to the General Fund
- Tax was capped at \$300 (which was the amount for a car costing \$15,000)
- The Highway Trust Fund, created in 1989, replaced the vehicle sales tax with a 3% Highway Use Tax, the cap was set at \$1,000 in 1989 and increased to \$1,500 in 1993 (and eliminated in 2001)
- To compensate the General Fund for its loss of the sales tax on vehicles, the proceeds from the new Highway Use Tax were transferred to the General Fund during its first two years; and the General Assembly directed that an amount of \$170 million be transferred annually
- In FY2001-02, the General Assembly removed the \$1,500 cap and transferred the additional amount to the General Fund. That amount was \$1.7 million in FY2001-02 and \$2.4 million in FY2002-03 and thereafter, and fluctuates annually based on the percentage change of revenues collected
- There have been a total of \$3.5 billion transferred to the General Fund since 1989-90, which is a net of \$400 million above the statutory transfer amount

Highway Trust Fund to General Fund Transfer

Statutory Language

- **§ 105-187.9. Disposition of tax proceeds.**
- (a) **Distribution.** – Taxes collected under this Article at the rate of eight percent (8%) shall be credited to the General Fund. Taxes collected under this Article at the rate of three percent (3%) shall be credited to the North Carolina Highway Trust Fund.
- (b) **Transfer.** – In each fiscal year the State Treasurer shall transfer the amounts provided below from the taxes deposited in the Trust Fund to the General Fund. The transfer of funds authorized by this section may be made by transferring one-fourth of the amount at the end of each quarter in the fiscal year or by transferring the full amount annually on July 1 of each fiscal year, subject to the availability of revenue.
- (1) **The sum of one hundred seventy million dollars (\$170,000,000).**
- (2) In addition to the amount transferred under subdivision (1) of this subsection, the sum of one million seven hundred thousand dollars (\$1,700,000) shall be transferred in the 2001-2002 fiscal year. The amount distributed under this subdivision shall increase in the 2002-2003 fiscal year to the sum of two million four hundred thousand dollars (\$2,400,000). In each fiscal year thereafter, the sum transferred under this subdivision shall be the amount distributed in the previous fiscal year plus or minus a percentage of this sum equal to the percentage by which tax collections under this Article increased or decreased for the most recent 12-month period for which data are available. (1989, c. 692, s. 4.1; c. 799, s. 33; 1993, c. 321, s. 164(a); 2001-424, s. 34.24(c); 2001-513, s. 15.)

Highway Trust Fund to General Fund Transfer Session Law 2007-323

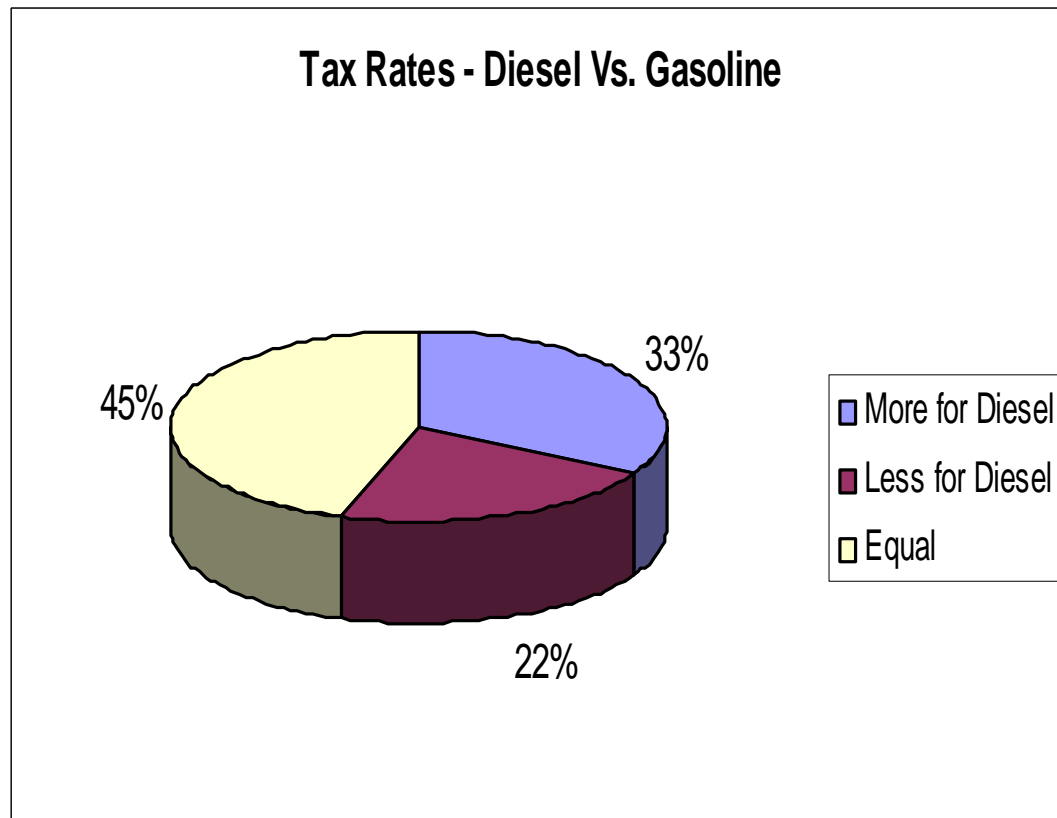
- **PHASE OUT TRANSFERS FROM THE HIGHWAY FUND AND THE HIGHWAY TRUST FUND TO THE GENERAL FUND AND OTHER STATE AGENCIES**

SECTION 27.12. It is the intent of the General Assembly to phase out funds transfers from the Highway Fund and the Highway Trust Fund to the General Fund and to other State agencies over a five-year period of time. The funds transfers from the Highway Fund and the Highway Trust Fund to the General Fund and to other State agencies would be reduced to fifty percent (50%) of the current funds transfers, effective July 1, 2009. The funds transfers from the Highway Fund and the Highway Trust Fund to the General Fund and other State agencies would be reduced an additional fifty percent (50%) of the amount being transferred on June 30, 2011, effective July 1, 2011. The funds transfers from the Highway Fund and the Highway Trust Fund to the General Fund and other State agencies would be eliminated completely, effective July 1, 2013.

NC's Motor Fuels Tax

- NC has one tax rate for gasoline and diesel
- Set twice each year January 1st and June 1st
- Comprised of two components:
 - 17.5 cents per gallon fixed
 - 7% of wholesale variable
 - Capped at 29.9 cents per gallon through 6/30/09
- January 1, 2008 sent rate up to cap
 - Would be 33.4 cents per gallon otherwise
 - Results in 95 million dollar shortfall for both fuels (17.1 million for diesel) over 6 month period

Comparing Gasoline Vs. Diesel Rates Across States



- 17 Charge More

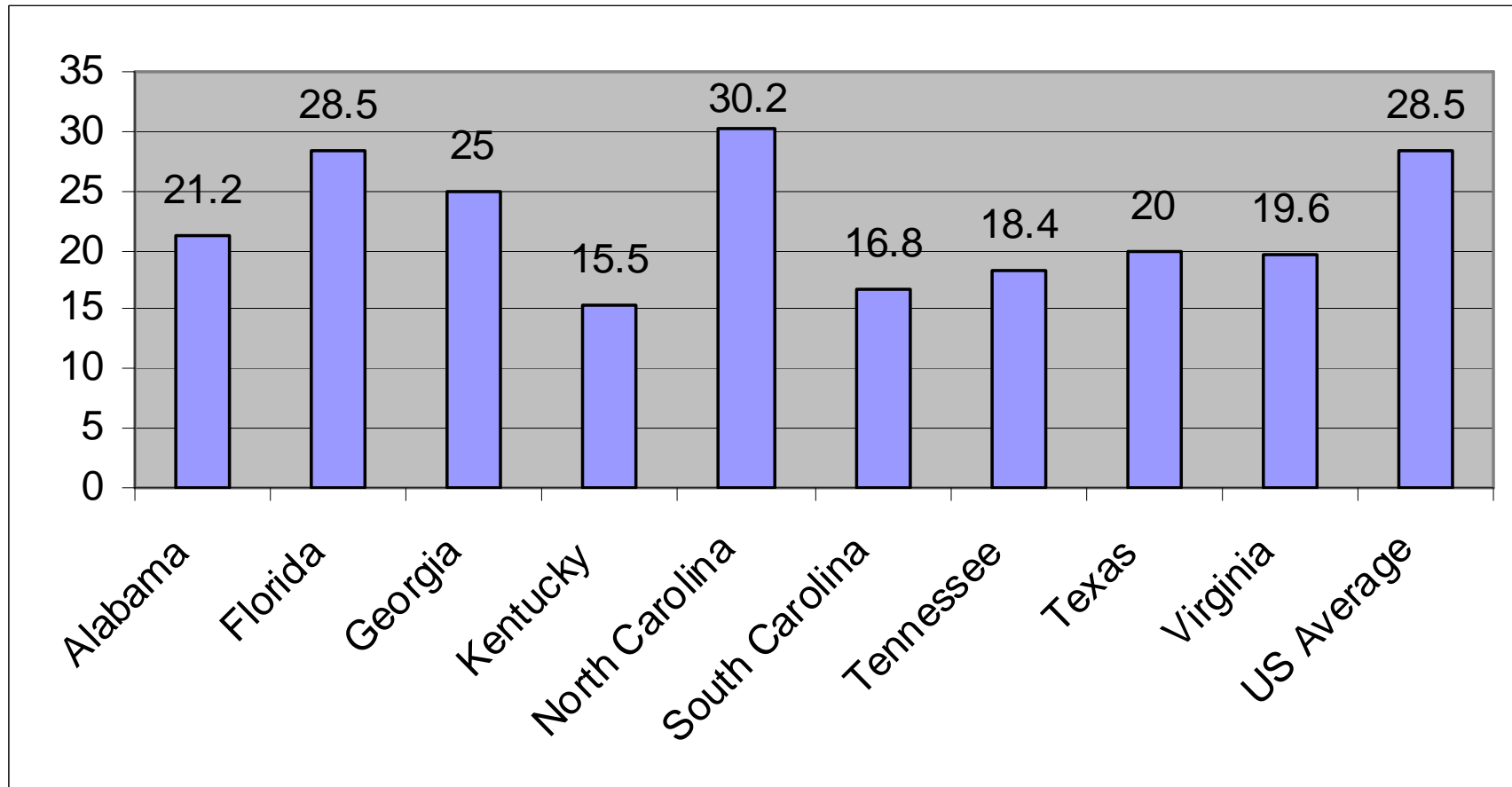
Alabama, Arizona, Arkansas, California, Florida, Hawaii, Illinois, Indiana, Iowa, Kansas, Maine, Maryland, Montana, New Jersey, New Mexico, Pennsylvania, Vermont

- 11 Charge Less

Colorado, Connecticut, Delaware Georgia, Kentucky, Michigan, New York, Nevada, Oregon, Oklahoma, Tennessee,

Diesel Tax Rates

Southeastern States

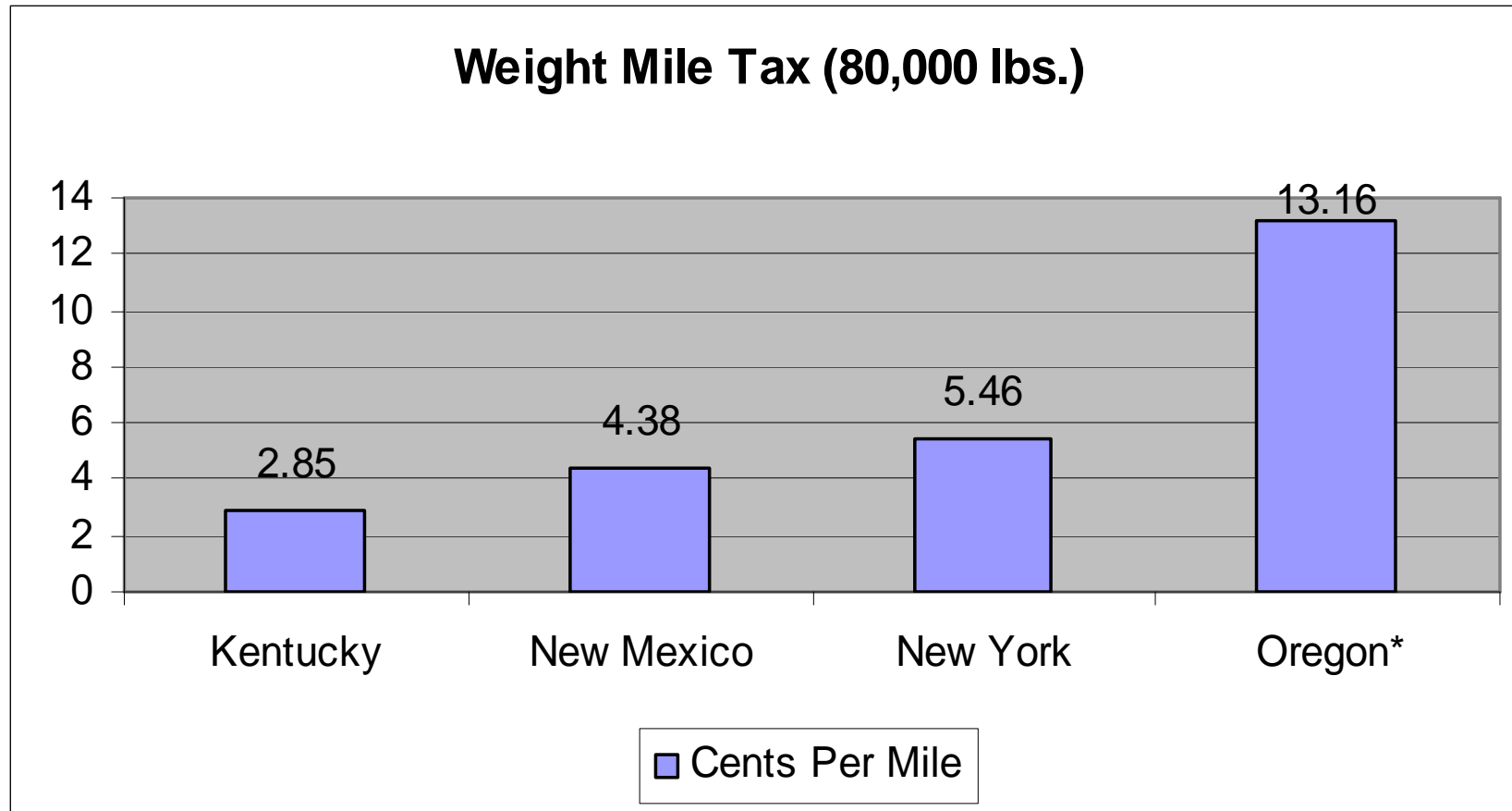


*Federal Diesel Tax Rate of 24.4 cents per gallon

Weight Mile Tax

- Charges a per mile tax rate which increases progressively proportional to vehicle weight
- Currently in use by 4 US states; New Mexico, Oregon, New York and Kentucky
- 19 states have had weight mile taxes at some point in the past but have repealed them

Weight Mile Tax



*No additional diesel tax for large trucks

Oregon's Weight Mile Tax

- Has collected some form of the weight mile tax since 1925
- Revenues dedicated to public highways, street roads, rest areas and includes highway protection services
- Cost per mile based on declared gross weight of the truck
 - Ranges from 26,000 to 105,000 in 2,000 pound increments
 - Rate starts at 4 cents a mile and escalates to 13.14 cents a mile for a 80,000 pound truck.
 - Trucks over 80,000 increase proportional to the # of axles

Oregon Weight Mile, Cont'd

- Axle incentives are tax reductions given for trucks operating with more than the required number of axles for the weight they are carrying (80,000 lbs. +)
- Most farm vehicles exempt from weight mile and only subject to state diesel tax
- Log, sand, gravel, and wood chip trucks can pay monthly flat fee based solely on weight



Oregon Weight Mile, Cont'd

- Administration
 - Truck companies required to report road miles and calculated weight-mile tax on those miles either monthly or quarterly to ODOT
 - ODOT performs periodic audits
 - Data cross checked with fuel purchase records at truck stops, ODOT weigh stations and other points of encounter with law enforcement

Kentucky's Weight Mile Tax

In addition to 15.5 cent per gallon base rate:

- Supplemental Tax
 - Applies to vehicles >26,000 lbs.
 - 4.7% on diesel (2% on gasoline)
 - Paid by fuel suppliers
- Weight Mile Tax
 - Applies to vehicles >60,000 lbs.
 - 2.85 cents per mile
- Proceeds of both go to road fund

New Mexico's Weight-Distance Tax

In addition to 20.9 cent per gallon base rate:

- Ranges from 26,000 – 80,000 lbs in 2000 lb increments with rates starting at 1.101 cents per mile and going up to 4.378 cents per mile
- Submitted on quarterly basis by carrier
- Has grown approximately 3-4% per year outpacing NM's fuel tax revenue growth
- In the process of setting up an electronic database that tracks all registered carriers in state facilitating administration

Virginia

In addition to base rate of 16 cents per gallon

- Vehicles >26,000 lbs. or with 3 or more axles, pay an additional 3.5 cents per gallon (all fuel types)
- Not tied to miles driven
- 2% sales tax in localities (Northern Virginia Transportation District)

Other State's Taxes

Arizona

- 18 cents per gallon of diesel for vehicles <26,000 lbs.
- 26 cents per gallon of diesel for vehicles >26,000 lbs.

Illinois

- 22.6 cents per gallon of diesel for vehicles <26,000 lbs.
- 28.6 cents per gallon of diesel for vehicles >26,000 lbs.

Indiana

- 18 cents per gallon of diesel for vehicles <26,000 lbs.
- 29 cents per gallon of diesel for vehicles >26,000 lbs.

Advantages/Disadvantages of Weight Mile Tax

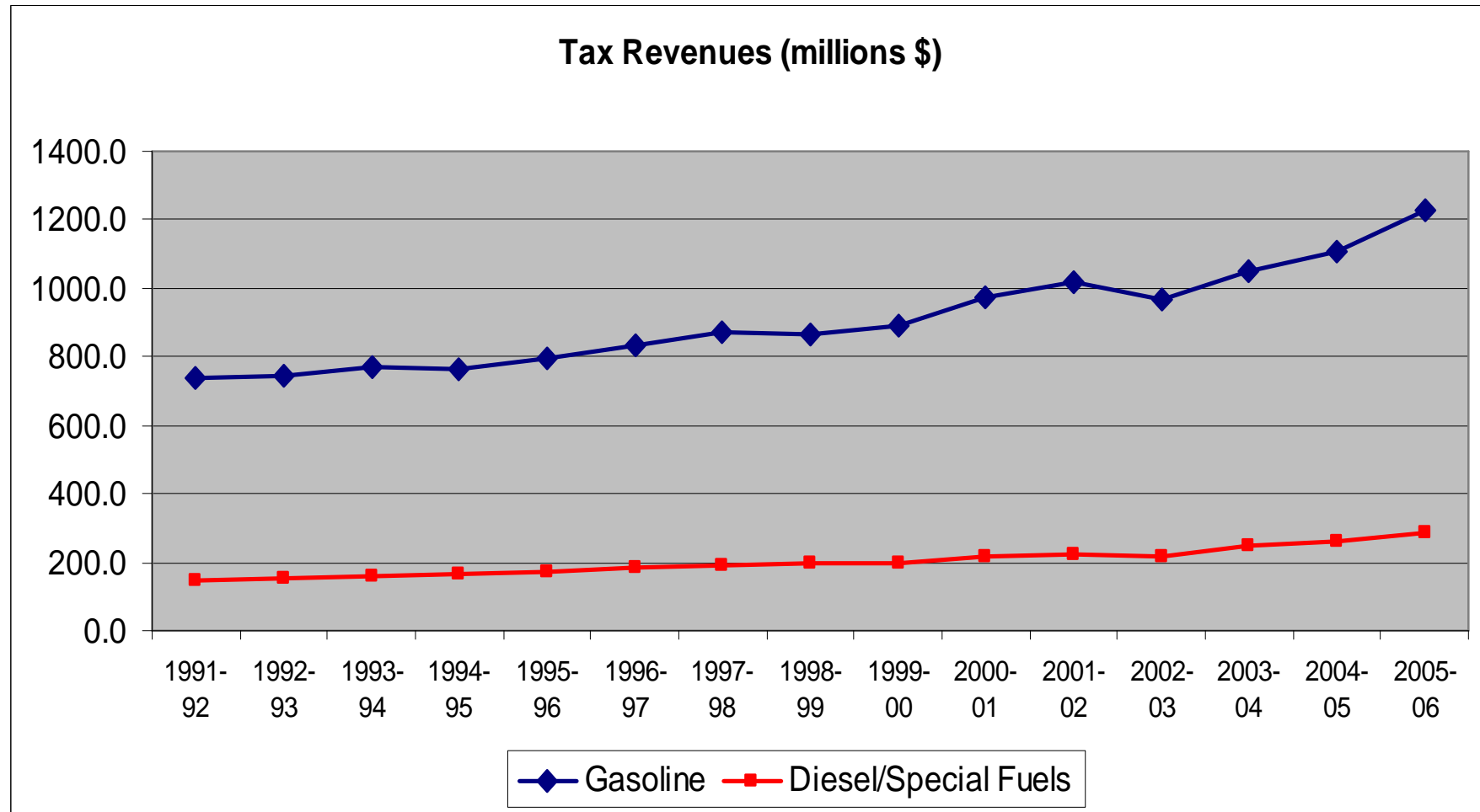
Advantages:

- Better correlates tax paid to road wear
- Traditional per gallon fuel taxes may not correlate well with wear caused by large trucks
 - A doubling of truck weight nearly doubles road wear but may only increase fuel consumption by 10% (Oregon Issue Brief, 2000)

Disadvantages

- Potential for tax evasion
- Administrative costs for collection and compliance
- Additional costs to truckers
- Generally disliked in trucking industry

Growth Rates – Gasoline vs. Diesel



Growth Rates – Gasoline vs. Diesel

FY 1991-92 to 2005-06

- Revenues from Gasoline have averaged 3.8% growth per year and grown 67% growth overall.
- Revenues from diesel/special fuels have averaged 5.1% growth per year and 99% growth overall.

Revenue Options

- Under GS 105-164.13(11a) diesel fuel sold to railroad companies are exempt from sales and motor fuels tax (enacted in 94-95 session)
 - The 2007 tax expenditure report puts the cost of this exemption at \$17 million from sales tax, based on information provided by the industry
- Remove Gas Rate Cap
 - \$34 million for diesel, \$155 million for gasoline (calculated at current rate if cap did not exist)
- No measure of truck miles driven by weight category for accurate comparison to other states

Questions?

