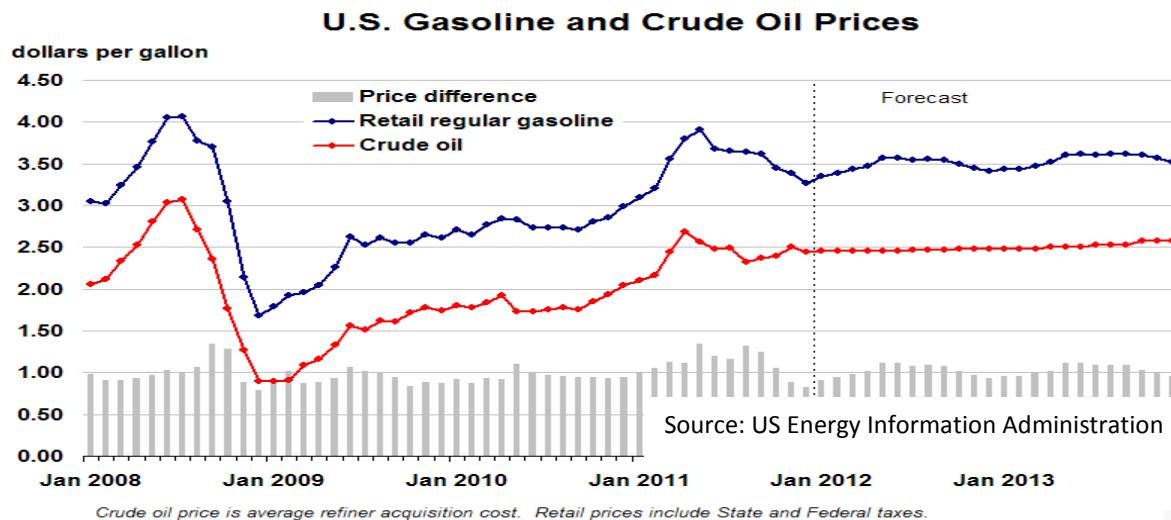


Q&A: North Carolina Motor Fuels Taxes January 2012

Motor Fuel Taxes Nationally

What factors are responsible for higher motor fuel taxes?

According to the US Energy Information Administration (EIA), the price of crude oil is “the main contributor to the large changes in gasoline prices the U.S. has experienced in recent years.” Crude oil accounts for 68% of the price of gas at the pump. The price of crude oil is greatly affected by supply and demand. Since 2008, fluctuations in the price of crude oil can be attributed to political events in the Middle East and North Africa, as well as fluctuations in consumption and the world economy. As shown in the chart below, EIA forecasts crude oil prices to remain steady through 2013 while the price of gasoline mildly fluctuates.



Source: Short-Term Energy Outlook, January 2012



NC Motor Fuel Tax Basics

What is North Carolina's current motor fuel tax rate?

From January 1, 2012 through June 30, 2012, the rate is 38.9 cents per gallon, an increase of 3.9 cents per gallon over the previous six-month period.

How much revenue does the motor fuel tax generate?

The 2011 budget estimated that the motor fuel tax will generate \$1.89 billion in FY 2011-12 and \$2.02 billion in FY 2012-13. Each penny of the tax generates approximately \$50 million per year.

How is the motor fuel tax rate calculated?

The motor fuel tax rate has two components:

- A flat rate of 17.5 cents per gallon, plus

- A variable rate that is currently 21.4 cents per gallon. The formula for this variable rate is 7% of the wholesale price of gasoline based on a weighted average price of gasoline and diesel for a six-month base period. The weighted average price was \$3.0564 for the last base period.

How much does an average consumer pay in North Carolina motor fuel tax each year?

On average, a person pays \$7.50 per year for every penny of the State motor fuel tax. This figure is based on a person driving 15,000 miles annually using a vehicle with an average fuel economy of 20 miles per gallon. As a result of the January increase, this person will pay an additional \$14.62 from January through June. Including the January rate increase, this person will pay about \$277 during the 2011-12 fiscal year in State motor fuel taxes.

In general, how are the revenues generated from the motor fuel tax used?

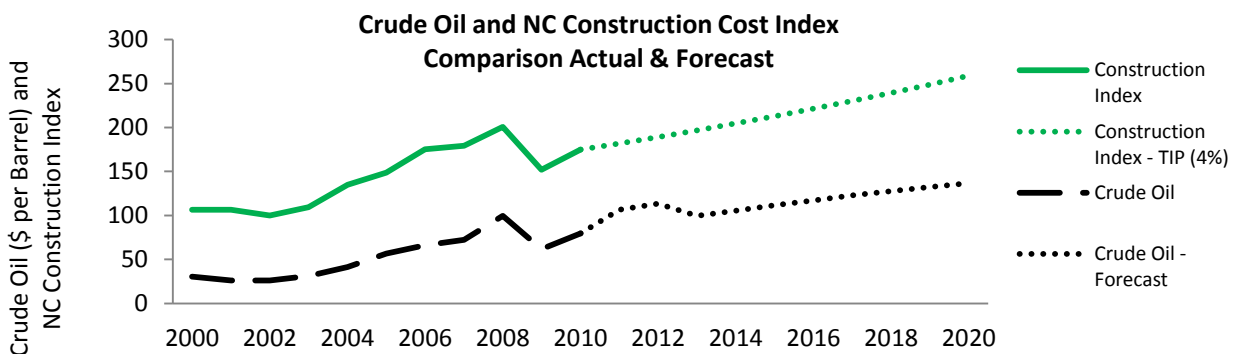
With minimal exceptions, G.S. 105-449.62 requires revenue from motor fuel tax be used “for the State's transportation needs.” Statutorily, 75% of revenues are deposited into the Highway Fund, which supports the state’s maintenance needs, DMV, and five intermodal divisions. The remaining 25% supports the Highway Trust Fund, which is the State’s road construction fund.

How are revenues generated from the higher tax rate being used during this biennium?

The Ratified Budget included \$375 million in additional revenues for the biennium based on the final revenue forecast. In the Highway Fund, additional revenues were budgeted to repair structurally deficient bridges and to resurface pavements. In the Highway Trust Fund, additional revenues supported the intrastate system, Aid to Municipalities, and urban loops.

Is the motor fuel tax rate correlated with the cost of construction materials?

Asphalt is a by-product of crude oil. Increases in the motor fuel tax rate are linked to increases in the price of crude oil; the greater the price of crude oil, the greater the price of construction. The chart below tracks the relationship between the NC DOT construction costs and crude oil prices.



Source: DOT, Fiscal Presentation to DOT Board, May 2011, Reformatted.

Forecasting Motor Fuel Prices and Taxes

What is the national forecast for motor fuel prices for the rest of this year and for 2012?

The 2011 national average price for a gallon of regular grade gasoline was \$3.53, up \$0.74 since 2010. In January 2012, EIA forecasts the national average price for a gallon of regular grade gasoline will be \$3.48 in 2012 and \$3.55 in 2013.

Is the current rate of 38.9 cents per gallon the highest the motor fuels tax has been in North Carolina?

Yes. The computed rate reached 40.0 cents per gallon during the period of January –June 2009, but the tax was capped at 29.9 cents per gallon at the time.

How much will the NC motor fuel tax rate increase next fiscal year?

A final consensus revenue forecast between the Executive Branch and the General Assembly’s Fiscal Research Division will be completed in early May. Preliminary data suggests the rate will be between 37 and 38.5 cents per gallon for the two six-month periods in FY 2012-13.

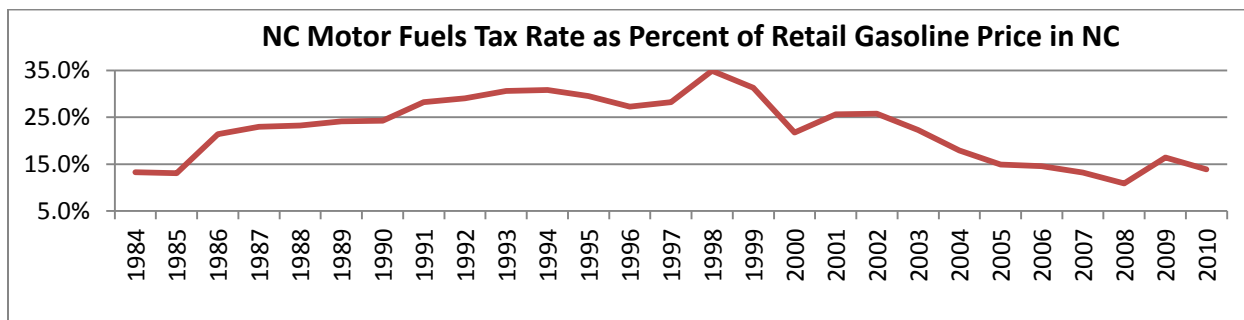
How does DOT account for less revenues?

DOT compares forecasted to actual revenues monthly and adjusts transportation spending accordingly. To manage its cash flow as required by statute, DOT will let fewer projects than planned if actual revenues fall short of forecasted revenues.

Comparing Motor Fuel Taxes

How has NC motor fuel tax rate changed over time?

With few minor exceptions, the NC motor fuel tax rate has risen steadily over time. The Department of Revenue tracks changes in the tax rate at: <http://www.dor.state.nc.us/taxes/motor/rates.html>. However, as shown below, the tax rate as a percentage of the retail price of gasoline (excluding all taxes) in NC is declining. The chart indicates that as the tax rate has steadily increased, the rate does not keep pace with the rising cost of gasoline. The relationship between the price of gasoline and the price of highway construction indicates that North Carolina’s tax rate generates the same buying power as it produced in 1984.



How does North Carolina’s motor fuel tax rate compare to other states?

Compared to other states, North Carolina has a high motor fuel tax rate. According to the American Petroleum Institute, North Carolina’s flat rate of 38.9 cents per gallon (cpg) on motor fuel is the highest in the nation. North Carolina is one of 26 states that tax gasoline and diesel at the same rate. Thirteen states tax gasoline at a lower rate than diesel fuel. The remaining 11 states tax diesel fuel less than gasoline. In comparison to North Carolina, only one state, Connecticut, has a higher base tax rate on diesel fuel.

As of January 1, 2012	Gasoline	Diesel
Federal	18.40	24.40
Base Rate- North Carolina/ Average All States	38.90 / 20.90	38.90 / 19.00

In addition to the base rate, North Carolina levies an additional motor fuel tax inspection fee of 0.25 cpg. Including North Carolina, 39 states levy an additional tax to the base motor fuel tax. The additional taxes include sales taxes on gasoline and/or diesel fuel, gross receipt taxes, environmental fees, or other fees. When comparing total state and local taxes on gasoline, five states have a higher combined motor fuel tax rate than North Carolina. The average *total* state and local tax on gasoline in the United States is 28.0 cpg. Seven states have a higher combined diesel fuel tax than North Carolina. The average *total* state and local tax on diesel fuel is 29.6 cpg.

How do neighboring states tax motor fuel?

All neighboring states apply an additional tax to gasoline and diesel fuel. Georgia levies a 4.0% sales tax on the average price of motor fuel and a local sales tax that varies based on population. South Carolina levies a 0.25 cents per gallon (cpg) inspection fee (the same as North Carolina) and a 0.5 cpg Underground Storage Tank cleanup fee. Tennessee applies a one cent special petroleum tax for gasoline and a 0.4 cpg environmental assurance fee. Virginia levies a one cent petroleum storage tax fee and enables some localities to charge a 2.1% sales tax.

State	Gas Excise Tax	Other Gas Tax	Total Federal, State & Local Gas Tax	Diesel Excise Tax	Other Diesel Tax	Total Federal, State & Local Diesel Tax
Georgia	7.5	21.9	47.8	7.5	24.4	56.3
North Carolina	38.9	0.25	57.6	38.9	0.25	63.6
South Carolina	16.0	0.8	35.2	16.0	0.8	41.2
Tennessee	20.0	1.4	39.8	18.0	0.4	42.8
Virginia	17.5	2.3	38.2	17.5	2.6	44.5

Source: American Petroleum Institute, Rates Effective January 1, 2012

Why is the North Carolina motor fuel tax rate higher than the rate in surrounding states?

North Carolina has a higher motor fuel tax rate than other states in the Southeast, including all neighboring states. Two factors distinguish NC transportation revenue needs: (1) road miles owned by the State and (2) the percent of road miles owned by the State. As shown in the chart below, North Carolina owns more road miles than neighboring states. Local governments may use revenues from other sources to support local roads.

State	Road Miles Owned by State Agency	Total Road Miles	Percent Owned by State Agency
Georgia	17,997	121,873	15%
North Carolina	79,466	105,104	76%
South Carolina	41,429	66,255	63%
Tennessee	13,881	92,175	15%
Virginia	57,918	73,902	78%