

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: House Bill 258 (First Edition)

SHORT TITLE: Community College Fuel Tax Exemption

SPONSOR(S): Rep. Gordon Allen, et al.

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>	<u>FY 2002-03</u>	<u>FY 2003-04</u>
REVENUES					
General Fund	(\$9,711)	(\$9,809)	(\$9,907)	(\$10,006)	(\$10,106)
Highway Fund					
Investment Earnings	(\$1,149)	(\$1,173)	(\$1,201)	(\$1,231)	(\$1,272)
Administrative Fee	(\$2,490)	(\$2,515)	(\$2,540)	(\$2,566)	(\$2,591)
Highway Trust Fund	<u>(\$383)</u>	<u>(\$391)</u>	<u>(\$400)</u>	<u>(\$410)</u>	<u>(\$417)</u>
Total – All Funds	(\$13,733)	(\$13,888)	(\$14,048)	(\$14,213)	(\$14,386)
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Revenue; Community College System					
EFFECTIVE DATE: July 1, 1999					

BILL SUMMARY:

The bill exempts the Community College System from paying an excise tax on motor fuel purchases.

BACKGROUND:

The 58 Community Colleges and the Center for Applied Textile Technology pay the motor fuels tax, but may apply for a refund of the tax due to non-highway usage. These institutions file Form Gas 1201, Application for Refund on Taxpaid Motor Fuels Used for Non-Highway Purposes, with the Department of Revenue for a refund of motor fuel taxes for the previous calendar year. For example, the application for refund of 1998 taxes must be filed before April 15, 1999. However, the community colleges will not receive a 100% refund of taxes. Fuel that is not subject to the motor fuel tax must be assessed a 6% sales tax. There is also a 1 cent per gallon administrative fee and a ¼ cent inspection fee that is not refundable. Thus the community colleges receive a refund of their motor fuel taxes minus the sales tax and fees.

ASSUMPTIONS AND METHODOLOGY:

SALES TAX/ADMIN. FEE

In Fiscal Year 1997-98, the 58 Community Colleges and the Center for Applied Textile Technology spent \$55,412.04 for excise taxes on motor fuels. According to the Community College System Vice President for Business & Finance, almost all of the motor fuel is used for instructional, non-highway purposes. Given the small amount of fuel purchased for highway use, this fiscal note will assume all of the fuel purchased by community colleges is for non-highway purposes. The Community College System will receive a refund of the motor fuel tax minus 1) 6% sales tax on the value of the motor fuel and 2) an administrative and inspection fee. With the passage of HB 258, the State General Fund will lose the sales tax revenue from the motor fuel purchased by the Community Colleges. Based on the 1997-98 motor fuel taxes paid, the Community Colleges purchased 244,106 gallons of fuel in 1997-98. Statewide fuel consumption for highway use is expected to grow approximately 3% a year, but the Community Colleges expect only a 1% growth in fuel for on-campus use. To determine the sales tax paid in future years, the estimated number of gallons is multiplied by 65 cents per gallon, the average wholesale price of gas. Exempting community colleges from motor fuel tax will result in the loss of \$9,711 in sales tax payments in 1999-00. (see chart below)

	<u>gallons</u>	<u>wholesale price</u>	<u>motor fuel costs</u>	<u>sales tax 0.06</u>
97-98	244,106	\$0.64	\$156,227.84	\$9,374
98-99	246,547	\$0.65	\$160,255.59	\$9,615
99-00	249,013	\$0.65	\$161,858.14	\$9,711
00-01	251,503	\$0.65	\$163,476.73	\$9,809
01-02	254,018	\$0.65	\$165,111.49	\$9,907
02-03	256,558	\$0.65	\$166,762.61	\$10,006
03-04	259,123	\$0.65	\$168,430.23	\$10,106

By exempting community colleges from the motor fuel tax, the Highway Fund will lose revenue from the 1 cent per gallon administrative fee. For FY 1999-00, the projected consumption of 249,013 gallons of fuel by community colleges will yield \$2,490 in administrative fees for the Highway Fund. HB 278 will exempt the community colleges from paying this tax. However, the community colleges will continue to pay the inspection fee.

INVESTMENT EARNINGS

Although the Community Colleges are refunded their motor fuel tax payments each year, the Highway Fund and Highway Trust Fund earn interest on the tax while on deposit with the State Treasurer. The interest rate on the Treasurer's short-term investments is approximately 5.51%. Motor fuel taxes are deposited monthly with the Motor Fuels Tax Division of the Department of Revenue. At the completion of the calendar year, taxpayers may apply for a motor fuels tax refund beginning in January and ending April 15 of the following year. The Motor Fuels Tax Division processes the majority of refunds in February. For the tax paid in January and deposited in February, interest will be earned for 12 months until refunded in February of the following year. The tax paid in February will earn interest for 11 months and so on. Assuming equal monthly deposits of motor fuel tax, the interest lost in FY 1999-00 is \$1,532. (see next page for example for FY 1999-00) Interest earnings are divided between the Highway Fund (75%) and the Highway Trust Fund (25%).

FY 1999-00 Interest Calculation

	Motor Fuel Tax <u>Deposits</u>	Months <u>Invested</u>	Interest <u>Earned</u>
Jan	\$4,277	12	\$235.65
Feb	\$4,277	11	\$216.02
March	\$4,277	10	\$196.38
April	\$4,277	9	\$176.74
May	\$4,277	8	\$157.10
June	\$4,277	7	\$137.46
July	\$4,277	6	\$117.83
August	\$4,277	5	\$98.19
Sept	\$4,277	4	\$78.55
Oct	\$4,277	3	\$58.91
Nov	\$4,277	2	\$39.28
Dec	\$4,277	1	\$19.64
	\$51,322		\$1,531.75

FISCAL RESEARCH DIVISION 733-4910

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