NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: House Bill 637 (First Edition)

SHORT TITLE: Modify Fuel Tax Formula

SPONSOR(S): Representative Crawford

FISCAL IMPACT

Yes (X) **No ( )** **No Estimate Available ( )**

	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06
REVENUES	**$0**	**$0**	**$0**	**$0**	**$0**
EXPENDITURES					
POSITIONS:					

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Highway Fund and Highway Trust Fund

EFFECTIVE DATE: July 1, 2001

BILL SUMMARY: Raises the motor fuels tax from 17.5 cents per gallon plus either 3.5 cents per gallon or 7 percent of the average wholesale price, whichever is greater, to 17.5 cents per gallon plus either 5.5 cents per gallon or 7 percent of the wholesale price, whichever is greater.

ASSUMPTIONS AND METHODOLOGY: This bill would raise the floor of the motor fuels tax by two cents, from 21 cents to 23 cents. However, because the tax is currently well above the floor, and the Budget Office forecasts that motor fuel prices will decline gradually, the bill is likely to have no fiscal impact during the next five fiscal years. If motor fuel prices rise instead of falling, there would also be no fiscal impact. If motor fuel prices decline very sharply instead of gradually, then motorists would pay up to two cents more per gallon in tax but much lower prices for fuel. A motor fuels price decrease of about fifty cents would increase tax revenues to the Highway Fund and Highway Trust Fund by a total of about $100 million per year.
Under current law, the floor of the motor fuels tax is 17.5 cents plus 3.5 cents = 21 cents. However, the current tax rate (January 2001 through June 2001) is 24.3 cents per gallon, well above the floor, based on a wholesale price of about 97 cents per gallon during the base

period of April 2000 through September 2000 (7 percent of 97 cents =6.8 cents and 6.8 cents plus 17.5 cents = 24.3 cents).
As long a fuel prices stay high, the variable rate will be higher than the floor and the bill would have no fiscal impact. However, if wholesale prices fall below 78.6 cents per gallon, from about 93 cents per gallon in January, 2001, then the bill would keep the variable rate from falling as much as it would under current law.
The Office of State Budget, Planning, and Management forecasts that wholesale prices will fall over the fiscal note forecast period of five years and that the variable rate will eventually fall to about 5.5 cents, as follows:

Budget Office Forecast of Variable Fuel Tax

Fiscal Year	Variable Tax (cents)	Total Tax (cents)
2001-02	6.7	24.2
2002-03	5.9	23.4
2003-04	5.7	23.2
2004-05	5.6	23.1
2005-06	5.5	23.0

Therefore, over the forecast period the variable rate would be above or at the floor and this bill would have no fiscal impact.

However, given the difficulty of forecasting something as volatile as the wholesale price of fuel, it is worth considering the impact if the Budget Office forecast (based on forecasts from DRI-McGraw Hill, a national economic consulting firm) is incorrect. If fuel prices are higher than the Budget Office is forecasting, then the bill would have no impact, because the variable tax would be above both the new floor and the old floor. If prices are actually lower than the Budget Office is forecasting, then the bill would have a fiscal impact. As prices fell the tax would not fall as much as it would under the current formula. If wholesale prices fall precipitously, to under 50 cents per gallon, as they did in 1998 and early 1999, then motorists would experience the maximum fiscal impact of $100 million per year (two cents per gallon higher taxes with each cent of fuel taxes being worth about $50 million) paid to the Highway Fund and Highway Trust Fund. However, motorists would be paying about fifty cents per gallon less than currently for the fuel itself.

FISCAL RESEARCH DIVISION 733-4910
PREPARED BY: Bob Weiss

APPROVED BY: James D. Johnson

DATE: April 18, 2001

Official
Fiscal Research Division
Publication

Signed Copy Located in the NCGA Principal Clerk's Offices