

## Talking Points for TRAC Fuel Subcommittee

May 12, 2010  
Greenville, SC

- SCDOT's primary source of state revenue is a 16 cents motor fuel user fee for both gasoline and diesel.
- The motor fuel user fee was last increased in 1987, 23 years ago, and has never been adjusted for inflation.
- South Carolina's user fee is the lowest among the 12 Southeastern states and the 3<sup>rd</sup> lowest in the nation.
- The cost to resurface 1 mile of a 2 lane roadway was \$26,000 in 1987. The cost to resurface the same type of 2 lane roadway today is \$180,000 – an increase of 600%. The majority of SC's roads are not eligible for federal funds for maintenance.
- Over 90% of SCDOT revenues are from Motor Fuel.
- Across the Southeast region, approximately 51% of state source highway funding is derived from sources other than fuel user fees.
- Revenues from Motor Fuel Fees have declined over the past 2 fiscal years. In 2009 the decline equaled to \$18 million. This same trend is happening on the Federal level.
- The only way for SCDOT to increase revenue is to put more cars on the road and burn more gallons of motor fuel. This puts a greater strain on the highways and requires more maintenance.
- SCDOT also pays sales tax on all goods that we purchase. The Agency is even responsible for the motor fuel user fee when we put gasoline and diesel in state vehicles.
- Many states have come up with other ways to pay for highways and I'd like to share some of those ideas with you today.

### No Sales Tax Exemption on Motor Fuel

- At least 8 states, including Georgia, have a sales tax on motor fuel. *Georgia imposes a 7½ ¢ per gallon on distributors; in addition to the flat rate, Georgia also imposes 3% motor fuel tax at the pump. The % is recalculated semi-annually based on 4% of the statewide average retail prices by motor fuel type compiled by the US Department of Energy.*
- Georgia's total motor fuel user fee is 24 cents.
- According to the BEA, the removal of the sales tax exemption in SC would generate approximately \$500 M annually.

### Sales Tax AND Motor Fuel User Fee Combination

- Some states, like NC, charge an ad valorem tax AND a motor fuel user fee on gasoline.

- NC's tax is 17 cents, plus a 7% ad valorem tax. The sales tax is collected from suppliers, is based on the published wholesale price of fuel, and is adjusted every 6 months.
- It is currently 30.3 cents.
- NC's total tax cannot go below 30 cents. This floor is essential to allow revenues to remain consistent for planning purposes.
- In a model like North Carolina's, SC would keep the 16 cents motor fuel user fee in place and add an additional 6% tax. Depending on the price of fuel, SCDOT estimates that this could generate \$775 M (or an additional \$348 M) for highways annually.
- If the desire was to remain revenue neutral at the time of implementation, SC could reduce the motor fuel user fee from 16 cents to 7 cents and add a 4.65% sales tax.
- We had been asked in the past to draft a bill to make this change. You have a copy of that bill in your packets, as well as a diagram that shows the amount of revenue that would be collected.

#### State General Fund

- According to the Federal Highway Administration, 32 states currently place general fund revenues directly into the state highway fund.
- SCDOT only receives approximately \$100,000 from the General Fund. This money is used for mass transit and commercial motor vehicles rest areas.

#### User Fee on Automotive Parts

- Some states charge a user fee for automotive parts such as tires, batteries or motor oil.
- Rather than charge per item, Utah determined that 17% of their state sales tax was derived from the sale of vehicles and automotive parts.
- Their General Assembly then dedicated 8.3% of the state sales tax to their highway fund.

#### Sales Tax on Vehicles

- Many states dedicate the sales tax on vehicles to the highway fund.
- In SC, the sales tax on vehicles, which is capped at \$300, was expected to generate approximately \$94 M in FY 2008-2009.
- According to the BEA, if the \$300 cap was replaced with a 3% sales tax, an estimated \$123.5 M (or an additional \$29 M) would have been collected in FY 2008-2009.
- If the cap was replaced by a 5% sales tax, an estimated \$205.9 M (or an additional \$111 M) would have been collected.
- In NC, there is a 3% Highway Use Tax on vehicles in lieu of a state sales tax. There is no cap on personal vehicles. Revenue collected from the tax goes towards the North Carolina Highway Trust Fund, with a portion diverted to the General Fund. The portion diverted to

the General Fund serves to hold education harmless, since they were the recipients of a portion of this funding prior to 1989.

- Virginia charges a 3% Motor Vehicle Sales and Use Tax on vehicles. There is no cap. These funds are dedicated to the General Fund but a portion of the General Fund in Virginia is dedicated to highways.
- West Virginia charges a 5% sales tax on vehicles with no cap. These funds are directed to the State Road Fund.
- Georgia has a 4% statewide tax on all sales. There is an additional tax imposed on the sale of a motor vehicle which is based upon the rate imposed by the county in which the vehicle will be registered. Each county in Georgia can impose an additional tax for homestead exemption, special purpose, education, etc. This is 3% on average per county. The sale of motor vehicles is not exempt from the 4% statewide tax or the local tax, except for the 1% additional tax imposed by the City of Atlanta.

#### Fees on Rental Cars

- States like Virginia and Florida both charge a daily user fee on rental cars and use this money for highway maintenance.
- The burden of this tax is paid mainly by out of state visitors.

#### Alternative Fuel Vehicles

- National policy is in conflict with the highway funding structure.
- Congress is encouraging the use of alternative fuels and increasing emission standards. Since both the Federal government and the state government here in South Carolina pay for highways from fuel taxes, this green initiative ultimately hurts our revenue.
- There are many types of alternative fuel vehicles, most of which do not use gasoline and therefore the drivers do not pay for using the roads.