

spotlight

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N.C.'s GAS TAX CAN BE CUT *Road Construction Would Not Be Harmed*

S U M M A R Y : State leaders claim that capping the gas tax at 27.1 cents per gallon would cost the state up to \$135 million a year in road construction. They are wrong. The state will be just \$5.3 million behind projections planned for in this year's budget if it freezes the gas tax. Furthermore, nearly \$400 million in gas tax revenues goes toward spending that has nothing to do with road construction. The General Fund, public transportation, railroads, and airlines all receive gas-tax revenues. There is no need to take money from road construction so long as gas-tax revenues are diverted to unrelated programs.

n orth Carolina's motor fuel excise tax, or gas tax, rose 2.8 cents per gallon on January 1 to 29.9 cents from 27.1 cents per gallon. The increase translates to a windfall of \$74 million for the state. These windfall revenues were not included in the revenue projections for the budget for the current fiscal year and are in addition to the \$71.3 million windfall the state has already realized in corporate and personal income taxes.¹ But now Senate President Pro Tem Marc Basnight, House Speaker Jim Black, and Gov. Mike Easley claim that capping the gas tax at 27.1 cents and forgoing the extra revenue would halt road construction projects.

The governor's office claims that 2.8-cent tax hike would give the state an additional \$135 million windfall in 2006 at a cost of \$15 per driver—\$74 million in the first six months, according to the Department of Revenue. With this increase, North Carolina now has the sixth highest gas tax in the country. Part of the difference in gas taxes is due to North Carolina's reliance on state maintenance of roads, while other states finance roads through counties and therefore have higher property taxes. But, as will be shown, the state collects several hundred million dollars more each year than it uses for roads. Drivers here pay nearly a dime more per gallon in taxes than our neighbors in Tennessee, 12.4 cents more than Virginians, 13.9 cents more than South Carolinians, and 22.4 cents more than Georgians.²

No matter how one looks at the numbers, it is simply not true that road projects would need to be cut if the new tax is repealed. First of all, money from the higher gas taxes was not included in the budget in the first place. The

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budget passed in August, well before Hurricanes Katrina and Rita devastated oil supplies and sent wholesale prices into the stratosphere. The state gas tax combines a 17.5-cent flat tax and a 7 percent tax based on a given six-month period — in this case the six months through September 30, when the average wholesale price was \$1.7755. The full increase could not have been factored into budget availability statements — it is a windfall “profit” for the state, and should be given back to the taxpayers.

What our state leaders are not telling us is that the expected gas tax rate in the budgeting process was just a tenth of a cent more than the 27.1-cent rate before the January 1 hike. Capping the gas tax at that rate would not cost the state \$135 million, or even \$74 million, but just \$5.3 million. This is revenue that could be generated by a mere 0.2-cent increase for the next six months, much less than the 2.8-cent increase that did take effect. To avoid a tax increase at all, either Sen. Basnight or Speaker Black could commit his \$5 million share of Department of Transportation discretionary funds to fill the gap.³

Even if we accept the suggestion made by Gov. Easley and Sen. Basnight that the additional revenue was already included in the budget for road construction and that its non-collection would be a significant loss for the state, there are plenty of ways to make up for even a loss of \$135 million without touching funds for road construction.

State Motor Fuel Excise Tax (cents per gallon)

	<u>Jan 1, 2006</u>	<u>Rank</u>	<u>July 1, 2005</u>	<u>Rank</u>		<u>Jan 1, 2006</u>	<u>Rank</u>	<u>July 1, 2005</u>	<u>Rank</u>
New York	45.77	1	42.6	1	D.C.	20	26	20	26
Wisconsin	32.9	2	32.9	2	Louisiana	20	26	20	26
Pennsylvania	32.3	3	31.1	3	Minnesota	20	26	20	26
Washington	31	4	31	4	Tennessee	20	26	20	26
Rhode Island	30	5	30	5	Texas	20	26	20	26
North Carolina	29.9	6	27.1	8	Vermont	20	26	20	26
Ohio	28	7	28	6	Illinois	19	32	19	32
Montana	27.75	8	27.75	7	Michigan	19	32	19	32
Nebraska	26.1	9	25.3	10	Kentucky	18.5	34	18.5	34
Maine	25.9	10	25.9	9	Alabama	18	35	18	35
Connecticut	25	11	25	11	Arizona	18	35	18	35
Idaho	25	11	25	11	California	18	35	18	35
Utah	24.5	13	24.5	13	Indiana	18	35	18	35
Kansas	24	14	24	14	Mississippi	18	35	18	35
Oregon	24	14	24	14	New Hampshire	18	35	18	35
Maryland	23.5	16	23.5	16	Virginia	17.5	41	17.5	41
Massachusetts	23.5	16	23.5	16	Missouri	17	42	17	42
Delaware	23	18	23	18	New Mexico	17	42	17	43
Nevada	23	18	23	18	Hawaii	16	44	16	44
North Dakota	23	18	23	18	Oklahoma	16	44	16	44
Colorado	22	21	22	21	South Carolina	16	44	16	44
South Dakota	22	21	22	21	Florida	14.9	47	14.5	47
Arkansas	21.5	23	21.5	23	New Jersey	14.5	48	14.5	47
Iowa	20.7	24	20.7	24	Wyoming	14	49	14	49
West Virginia	20.5	25	20.5	25	Alaska	8	50	8	50
FEDERAL	18.4		18.4		Georgia	7.5	51	7.5	51

Source: American Petroleum Institute

First, as the General Assembly's Blue Ribbon Commission to Study North Carolina's Urban Transportation Needs recommended in its final report on December 6, the state should stop transferring money from the Highway Trust Fund to the General Fund.⁴ The transfer this year is budgeted at \$252.6 million. (The John Locke Foundation's 2005 alternative budget shows a number of ways the General Fund budget could be reduced by this amount.)⁵

If the General Assembly and governor are unwilling to end this diversion, they can still find room in the Highway Fund and the Highway Trust

FY2006 Non-Road Transportation Expenditures Highway Fund and Highway Trust Fund	
	<u>FY2005-06</u>
Aeronautics	\$2,366,128
Airline Recruitment	\$350,000
Bicycle Program	\$566,413
Ferries	\$21,493,208
Global TransPark	\$1,600,000
Public Transportation	\$90,286,098
Railroads	\$21,226,827
<u>Transfers to General Fund</u>	<u>\$252,558,117</u>
TOTAL	\$390,446,791

Fund for road projects by cutting other items. One example is the \$90 million that currently goes to public transportation grants and administration each year. Like roads, public transportation should pay its own way. Then there is the \$21 million in subsidies to railroads, including Amtrak and freight carriers. North Carolina also spends \$21 million to operate ferries. There are also a number of smaller items. The Global TransPark will receive \$1.6 million this year, a bicycle program will receive over \$500,000 and the state will spend an additional \$350,000 in gas-tax money to recruit airlines to airports. This is in addition to the \$6 million that airports are already receiving from the General Fund. These non-road expenditures total \$140 million of gas tax revenues, leaving more than enough room to continue some of the spending while still filling either a \$74 million or \$135 million "hole" that state leaders are arguing would exist.

When the House Joint Select Committee on Energy and Fuel Costs meets, and if the General Assembly enters into a special session, they should ignore the doomsayers about the harm capping the gas tax would do to state roads. The \$74 million the state would forgo in the next six months is windfall money that was not in the budget. If this money is truly needed for roads, as some are asserting, there is plenty of non-road spending that can be eliminated from the transportation budget. They can also eliminate or reduce the annual quarter-billion-dollar transfer to the General Fund from the Highway Trust Fund.

The fact is that vast amounts of gas-tax revenues are not going toward their intended purpose. This is a good time to begin phasing out the policy of forcing North Carolina's drivers to subsidize boondoggles such as the Global TransPark and light rail projects, which should support themselves.

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Notes

1. Sharif Durhams, "Higher tax revenue fills state's stockings," *Charlotte Observer*, November 30, 2005, <http://www.charlotte.com/mld/charlotte/news/13288955.htm>
2. American Petroleum Institute, "State Motor Fuel Excise Tax Rates," revised January 3, 2006.
3. Don Carrington, "DOT Slush Funds Remain Active: Projects still being charged to accounts of Black and Basnight," *Carolina Journal Online*, September 19, 2005, http://www.carolinajournal.com/exclusives/display_exclusive.html?id=2789
4. Blue Ribbon Commission to Study North Carolina's Urban Transportation Needs, "Final Report," December 6, 2005.
5. Joseph Coletti, "Freedom Budget 2005: Principled and Pragmatic," John Locke Foundation, May 2, 2005, http://www.johnlocke.org/policy_reports/display_story.html?id=57