N.C. GENERAL ASSEMBLY LEGISLATIVE FISCAL NOTE

Fiscal Research
733-4910

Prepared By: Doug Carter	Date Prepared	Bill No.	Edition:
Approved By: Tom L. Covington	July 7, 1989	HJR 447	Rep. Robert Hunter & others
TOMC	JULY 10, 1989		Sponsor:

Short Title: A Joint Resolution Oppossing the Use of Motor Fuel for Reduction of the the Federal Deficit

TYPE OF FISCAL IMPACT			FUNDS AFFECTED:
			( ) General (x) Highway ( ) Local ( ) Other:
	State Gov't	County/ Local Gov't	
No Fiscal Impact	( )	( )	
Increase Expenditure	( )	( )	
Decrease Expenditure	( )	( )	
Increase Revenue	( )	( )	
Decrease Revenue	(x)	( )	
No Estimate Avail.	( )	( )	

State Fiscal Impact	FY 89-90	FY 90-91	FY
State Total Req'ments			
Receipts/Revenues	($62,000,000)	($62,000,000)	
Net State Expend./Rev.			
No. of Positions			

Local Fiscal Impact	FY	FY	FY
Local Total Req'ments			
Receipts/Revenues			
Net Local Expend./Rev.			
No. of Positions			

Description of Legislation

1. Summary of Legislation
   Resolution opposes the use of federal motor fuel taxes for reduction of the federal deficit.

2. Effective Date - Upon ratification

3. Fund or Tax Affected - Highway Fund

4. Principal Department/Program Affected
   Department of Transportation - Division of Highways

Cost or Revenue Impact on State

	FY 89-90	FY 90-91	FY

1. Non-Recurring Costs/Revenues

2. Recurring Costs/Revenues ($62.0 M) ($62.0 M)

3. Fiscal/Revenue Assumptions

The Department of Transportation has indicated that the Congress has been considering the imposition of large additional taxes (from $.25 to $0.50) on gasoline and diesel fuel to reduce the size of the federal deficit. Proponents have argued that such an increase would raise larger amounts of revenues than excise taxes on other consumption items. Proponents also argue that raising rates would promote energy conservation and reduce the nation's demand for imported oil, thereby helping to shrink the U. S. trade deficit and reduce vulnerability to a new energy crisis.

In light of these arguments, several detailed analyses have been conducted by private forecasting services and by governmental organizations such as the U. S. Department of Energy (DOE) and the Congressional Budget Office (CBO), and these have been summarized in an Issue Paper published by the Federal Highway Administration (FHWA) in March 1989.

While each study looked at different tax rate increases and different time periods, they all agreed on general findings, such as:

MACROECONOMIC EFFECTS

1. Gross National Product is reduced;
2. Consumer Price Index is increased;
3. Employment is reduced;
4. Consumer incomes are reduces (in real terms);

ENERGY MARKET EFFECTS

5. Fuel Consumption is reduced;
6. World Price of Oil is reduced;
7. Driving habits change;

BUDGETARY EFFECTS

8. Other tax revenues are reduced;
9. Federal deficit is reduced by an amount less than the amount of increased fuel taxes;
10. Highway Trust Fund revenues are reduced;
11. Fuel Tax Evasion is increased;

DISTRIBUTIONAL EFFECTS

12. Fuel Tax becomes extremely regressive;
13. Two-thirds of all travel involves work, shopping and personal business trips which are a necessity.

Impact on Drivers

Assuming that the gasoline consumed per licensed driver in North Carolina remains at the 712 gallons per licensed driver per year level experienced in 1987, then a $.25 increase would mean an extra cost to each driver of $178 annually, and a $.50 increase would mean an additional $356 annually. Therefore, North Carolina's 4.4 million licensed drivers would be sending $783 million (with a $.25 rate increase) or $1.6 billion (with a $.50 rate increase) each year to Washington D. C. None of the funds would go towards highway improvements either in North Carolina or anywhere else in the nation.

Impact on North Carolina Highway Fund

At the same time, these tax increases are likely to reduce the demand for gasoline -- either through reduced travel or the use of more fuel efficient vehicles -- by as much as 10% (for the $.50 case). This could reduce North Carolina's annual highway fund generation ability from $40 million to $36 million per penny of fuel tax.

Thus, at the current fuel tax rate of $.155 ($.145 per gallon tax plus 3% sales tax), the North Carolina Highway Fund could lose $62 million annually.

Cost/Revenue Impact on County or Local Government

	FY 88-89	FY 89-90	FY
1. Non-Recurring Costs/Revenues			
2. Recurring Costs/Revenues			
3. Fiscal/Revenue Assumptions			

Sources of Data for Fiscal Note

Technical Considerations/Comments

Official
Fiscal Research Division
Publication

Signed Copy Located in the NCGA Principal Clerk's Offices