TRAC Committee Meeting

Fuel Tax Sub-Committee

5/10/10

I. Welcome 4:15 PM
    a. Introductions of meeting attendants
II. DOT Presentation
    a. Recap of Sec. Limehouse's testimony to TRAC
        i. Facts
            1. DOT's primary source of income is 16 cents on motor fuel user fee – 90% from fuel user fees -- other states that percentage is at about 51%.
                a. **Weaver**: Where do other states make up the other 40%?
                    i. **DOT**: Sales on vehicles, tires, parts etc. Currently, none of SC's $300 tax goes to DOT.
                    ii. **Cosgrove**: The Government is pushing alternative fuel and electric vehicles – these people are using the roads, but they are not paying their fair share to maintain them bc dot is almost fully funded by fuel tax.
                    iii. **Weaver**: It really should be considered that DOT gets its revenue from other sources. [Spinks agrees.]
            2. Gas tax last increased in 1980s and has not been increased for inflation.
            3. As more fuel efficient cars are on the road revenues decrease – to make up shortfalls either more cars need to be on the road (but this causes more damage) or increase the fees.
        ii. Other State Models
            1. Georgia Fees:
                a. Rely on motor fuel usage, but have a 7.5 cent tax per gallon of gas, and 4% sales tax over the entire purchase. (4% total tax on consumer, 3% goes to DOT). Gov't agencies get a break. Overall, the tax comes out to about 24 cents per gallon.
                    i. **Comment**:
                        1. **Spinks**: once you put a sales tax on gas, it allows the municipality to also place a sales tax on the gas, further increasing prices. Each county has differing sales tax which will put different burdens on stores. In addition, there is an increased implementation cost of placing more sales taxes on gasoline.

            2. **Weaver**: Keep it as an excise tax, not a sales tax to keep it out of the General Fund and out of the General Assembly's jurisdiction. (all concurred)
    2. North Carolina:
        a. 17.5 cents per gallon, and an ad valorem component. Collect a tax based on wholesale price collected at the terminal. (12.4 right now)
            i. Adjusted every 6 mos.
        b. Have set a floor of 29.9 cents per gallon – used to be cap.
            i. Comment:
                1. **Todd**: Keep the tax at the wholesale level, not retail.
                    a. IFTA is a base state program. All reporting and remitting is based on interstate carrying. Any tax excise or sales, if it's collected on a statewide tax then it is collected under IFTA. If it is local, then it is not collected under IFTA.
                2. **Cosgrove**: Gas prices are extremely volatile, this will place a much higher tax that constituents did not vote on – and neither did the General Assembly.
                3. **Mr. K**: Would be simpler as an excise tax;
                    a. IFTA: Keep it to a cents per gallon
                4. **Spinks**: Many companies will purchase out fuel for the entire year to stabilize budgets. This would hamper those budget drafting efforts.

iii. Draft Model
    1. Similar to NC model.
        a. To be **revenue neutral**, reduce from 16 to 7 cents per gallon, and implement an ad excise tax of 4.65% (wholesale price component).
            i. Comments
                1. **Spinks**: Fuel consumption is rather inelastic, if you increase prices, consumption stays the same (relatively). The problem with sales tax - the worst time for the consumer to pull another 4.5% out of his pocket is when the price goes up. It should operate counter to the price of fuel. (Lower taxes when price is high)

2. **Weaver**: What is DOT's preferred excise tax be to reach equilibrium?
    a. **DOT**: To maintain roads at Level C (average) – we need $700-800mm more per year.
    b. **Weaver**: How much would you need?
        i. **DOT**: about 25 cents per gallon increase.
3. **Spinks**: We do need more money for DOT – but we need to also be wary of getting "stuck" in the same track. Should 90% come from this tax? Is there a more reliable source? Currently we get 2.65% handling allowance of the tax that we collect – but capped at $2000 per marketer. If you purchase gas on a VISA it costs gas stations more than the 16 cent tax.
4. **Mr. K**: How would be coming from SC residents, and how much increased revenue would come from other states? [in reference to tourism gas consumption] **Response** – Hard to tell.
5. **Todd**: This issue is a huge topic – and one of the problems with their needs is that DOT has this XXXXX mile system and should it be the state's obligation to maintain them? It is much bigger than how much fuel tax should we give the DOT. This must have a holistic approach – we shouldn't just throw money at the shortfall but also look at the whole problem.
6. **Weaver**: SC has the 4th largest state network of roads.
    a. DOT – Yes. There has been a lot of discussion on this but it hasn't gone anywhere.

III. Public Citizen Testimonies

a. Stewart Spinks

i. It is pertinent to say that imposing an index without review to the consumer is not prudent. Georgia is currently benefitting from the increased price of fuel (profiting off of the cost strapped consumer). There is a need for more revenue for SC. To be so dependent on fuel makes it very hard to run DOT or to plan a budget. Please be less dependent on fuel taxes, and more dependent on other sources – especially with the flex fuel vehicles becoming more prevalent. This year, Spinks paid 4.7 million dollars to VISA and MasterCard for fuel. VISA and

ii. My plea is to invite the community in, let us demonstrate what this number is. I am representing the consumer, the retailer, and as a citizen. At present, 63.5% of consumers are paying on debit or credit. There is already a significant burden being placed on the consumer and the retailer alike.
    1. Comments:
        a. **Mr. K**: What is your cost to collect the tax?
            i. **Spinks**: It is embedded in the price – so my estimate is at about 1.5% of the sale price. In addition, about 60% of all customers use debit cards with fees, which further reduces profit.
        b. **Mr. K**: Please explain the $900 million figure you mentioned earlier that is leaving the state?
            i. **Spinks**: The increase in price of 76 cent increase goes to the petroleum producers, not the gas station owners. (if the price of gas goes up 76 cents – local retailers don't keep that increase…it is passed back to the oil companies.
        c. **Cosgrove**: Can Steve please post those figures on the TRAC website? [Spinks agrees]

IV. Roads
  a. **Cosgrove**: Let's talk about giving roads back to counties and public/private partnerships. Is the Connecter considered a public/private partnership? (no)
  b. **DOT**: for tolls to fund a road is very difficult. There are only 2 toll roads in SC and one in Hilton Head is hardly paying for itself.
    i. **Cosgrove**: So toll roads are not viable options for you?
    ii. **DOT**: we've considered it but we have not seen any that would be a good fit. There isn't as much interest there.
  c. **Weaver**: Who gets registration fees? If that was doubled would it raise that much more money?
    i. **DOT**: Transportation Infrastructure Bank – a funding bank for major projects. It funded the new Cooper River Bridge etc. It is a state fund. Truck fees based on weight generate about $65 million. No - if registration fees doubled it would only raise about $35 million a year.

V. Arkansas Proposal – **Mr. K**
  a. Arkansas has an ad valorem tax – in SC that an intrastate trucking company files a property tax return on rolling stock and then come up with an assessed value and fair

market value. But, before you apply the millage, you look at where you drive the miles. But in AK– if you 1.3% of miles are driven in AK then you are charged for that. SC does not do that for other out of state trucks. This does not impact the SC citizens or our SC trucking companies. I suggest that we consider taxing those trucks that are running through our state and give them an ad valorem.

   i. **Todd**: Some states require property taxes, and some require unconstitutionally 100%. What we do is to pay a percentage of your property tax based on the amount of time spent in SC. The Arkansas proposal has the truck as the nexus, whereas SC is basing it more on where the trucks are stationed. IRP does report miles, and there are ways to get apportioned mileage in SC. We don't want to get too out of line and add too many taxes on our sister states. This tax could be added on the IRP bill. Because a lot of private companies have their nexus in this state, we may already be getting that revenue. And this also contributes to Economic Development.
   ii. **Cosgrove**: I propose that we research this proposal and that we find out if this would be worthwhile. We need more info on the implications of this tax structure as it relates to SC based truckers and the impact and constitutionality of such a tax. [Weaver agrees]
   iii. **Cosgrove**: What about vehicle inspections?
      1. **DOT**: We have considered that option but it has met opposition. We have also considered attaching a tax to the miles driven.
      2. **Weaver**: I disagree, I think it would be better to increase registration fees, and it's cheaper and easier to collect.
   iv. **Cosgrove**: Let's see what the implications are for a fuel tax increase for in state and out of state drivers ie: whats the percentage of in state vs out of state fuel consumers. Also, I would like to see the 2 proposals DOT would present (their ideal plan and a revenue neutral proposal).

VI. **DOT**: Other options for revenue
   a. Rental Car Fees – about $17.5 million
   b. Car Insurance Fees – earmark the money to the DOT - $50 million

Motion to Adjourn by Chairman Cosgrove, seconded by Comm. Weaver. Time 5:50PM

NEXT MEETING: WEDNESDAY JUNE 9 2010 AT 4 PM AT THE GREENVILLE CHAMBER OF COMMERCE

Need to submit: Spinks data proposal, Arkansas language & info & DOT proposals