

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: House Bill 170 (First Edition)

SHORT TITLE: Mulch Blower Fuel Tax Refund

SPONSOR(S): Representatives Walend and Carpenter

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2001-02</u>	<u>FY 2002-03</u>	<u>FY 2003-04</u>	<u>FY 2004-05</u>	<u>FY 2005-06</u>
REVENUES					
Highway Fund	(\$1,242)	(\$1,505)	(\$1,787)	(\$2,072)	(\$2,356)
Highway Trust Fund	(\$414)	(\$502)	(\$596)	(\$691)	(\$785)
General Fund	\$236	\$285	\$333	\$381	\$431
Local Government	\$118	\$142	\$166	\$191	\$216
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Revenue – Motor Fuel Tax Division					
EFFECTIVE DATE: This act is effective when it becomes law and applies to motor fuel and alternative fuel taxes paid on or after January 1, 2001.					

BILL SUMMARY: The bill allows a fuel tax refund for off-road fuel use by a commercial vehicle that delivers and spreads mulch, soils and similar materials and that uses a power takeoff to unload and spread the materials. The refund is equal to the motor fuel tax paid on 33 1/3% of the motor fuel consumed by the vehicle. Motor fuel not taxed by the motor fuels tax is subject to the 6% state and local sales tax. The motor fuels tax refund to the commercial vehicle owner is net of the sales tax payment.

ASSUMPTIONS AND METHODOLOGY: This refund is limited by the legislation's requirement that the equipment use a power takeoff to unload and spread materials. Power takeoff (PTO) is a device used to transmit engine power to auxiliary equipment. Some PTO devices are mounted to a standard opening on the transmission, while others attach at the front or rear of the engine. Only Rexius Express Blower in Eugene Oregon incorporates a PTO in its trucks for blowing mulch, soil, and other materials. Three North Carolina companies own 8 Rexius trucks with a power takeoff. With a price tag of \$300,000 per truck, this industry does not expect to grow rapidly. In fact, Rexius plans to make only 50

trucks per year for the next five years. This fiscal note assumes a net increase of two additional trucks operated in the state each year.

One landscape company in Western North Carolina reported its power takeoff (PTO) fuel usage for calendar year 2000. This company reported that its mulch spreading truck's onboard computer reported 487 hours of PTO operations and 2,623 gallons of fuel used during PTO operations. Since similar data that was requested from a Piedmont landscape company was not submitted, this fuel usage will be used as the industry average in the chart below.

The refund is the tax paid on one third of the motor fuel used, minus the sales tax on the average wholesale price of fuel. The Office of State Budget, Planning and Management provided the projections for average wholesale price of fuel and the average motor fuels tax used in the chart below. The sales tax rate charged on fuel exempt from fuel tax is 6% (4% state and 2% local).

	Number of Trucks	Estimated Gallons	Refund on 1/3 of Gallons	Motor Fuels Tax	Average Wholesale Price of fuel	M.F. Tax Refund	Sales Tax Charge	Net refund to Consumer
FY 2001-02	8	20,984	6,994	\$0.24	\$0.84	\$1,655	\$354	\$1,302
FY 2002-03	10	26,230	8,742	\$0.23	\$0.81	\$2,007	\$427	\$1,580
FY 2003-04	12	31,476	10,491	\$0.23	\$0.79	\$2,382	\$499	\$1,883
FY 2004-05	14	36,722	12,239	\$0.23	\$0.78	\$2,762	\$572	\$2,190
FY 2005-06	16	41,968	13,988	\$0.22	\$0.77	\$3,142	\$647	\$2,495

The refund of motor fuel tax will produce a loss in the Highway Fund and the Highway Trust Fund. The Highway Fund receives 75% of the motor fuels tax and the Highway Trust Fund receives the remaining 25% of the tax. The loss to each fund due to HB 170 is shown below.

	Fuel Tax Refund	Highway Fund 75%	Highway Trust Fund 25%
FY 2001-02	\$1,655	\$1,242	\$414
FY 2002-03	\$2,007	\$1,505	\$502
FY 2003-04	\$2,382	\$1,787	\$596
FY 2004-05	\$2,762	\$2,072	\$691
FY 2005-06	\$3,142	\$2,356	\$785

The sales tax deducted from the motor fuel tax refunds will be deposited into the General Fund and distributed to local governments as shown below.

	General Fund	Local Govt.

FY 2001-02	\$354	\$236	\$118
FY 2002-03	\$427	\$285	\$142
FY 2003-04	\$499	\$333	\$166
FY 2004-05	\$572	\$381	\$191
FY 2005-06	\$647	\$431	\$216

TECHNICAL CONSIDERATIONS: The Department of Revenue recommends that the bill be amended in section 2 to allow the refund on motor fuel or alternative fuel consumed on or after January 1, 2001 instead of paid on or after January 1, 2001. The current bill language would prohibit the refund of tax from fuel purchased and stored in a bulk storage facility in 2000, but consumed in 2001.

FISCAL RESEARCH DIVISION 733-4910

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