



# NORTH CAROLINA GENERAL ASSEMBLY

Session 2019

## Legislative Fiscal Note

**Short Title:** DOT 2020-2021 FY Budget/Governance.  
**Bill Number:** House Bill 77 (Fifth Edition)  
**Sponsor(s):**

### SUMMARY TABLE

#### FISCAL IMPACT OF REVENUE CHANGES IN H.B. 77, V.5 (\$ in millions)

	<u>FY 2020-21</u>	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>	<u>FY 2024-25</u>
<b>State Impact</b>					
Highway Fund Revenue	205.8	210.5	86.0	88.2	90.7
Less Expenditures	-	-	-	-	-
<b>Highway Fund Impact</b>	<b>205.8</b>	<b>210.5</b>	<b>86.0</b>	<b>88.2</b>	<b>90.7</b>
Highway Trust Fund Revenue	(188.1)	(179.5)	(87.0)	(89.3)	(91.8)
Less Expenditures	-	-	-	-	-
<b>Highway Trust Fund Impact</b>	<b>(188.1)</b>	<b>(179.5)</b>	<b>(87.0)</b>	<b>(89.3)</b>	<b>(91.8)</b>
Special Fund Revenues	2.5	2.4	1.0	1.1	1.1
Less Expenditures	-	-	-	-	-
<b>Special Fund Impact</b>	<b>2.5</b>	<b>2.4</b>	<b>1.0</b>	<b>1.1</b>	<b>1.1</b>
<b>NET STATE IMPACT</b>	<b>\$20.2</b>	<b>\$33.4</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>

### FISCAL IMPACT SUMMARY

*This Fiscal Note does not address expenditures; it only addresses changes to revenue in H.B. 77, which include the following:*

- Section 4.2 puts a temporary floor on the motor fuel excise tax rate such that the 2021 rate cannot be lower than the current rate of 36.1¢ per gallon. This change is expected to increase revenue by \$20.2 million in FY 2020-21 and \$33.4 million in FY 2021-22.
- Section 4.6 increases the share of motor fuel excise tax revenue allocated to the Highway Fund and decreases the share allocated to the Highway Trust Fund.

## FISCAL ANALYSIS

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***Note:** Much of this analysis is based on the May 2020 Revised Transportation Revenue Forecast. Due to the global coronavirus pandemic, this forecast was subject to an unusually high degree of economic uncertainty and contained only bottom-line Highway Fund and Highway Trust Fund revenue estimates instead of the usual line-item estimates. Line-item estimates of motor fuel excise tax revenue were required for this analysis. These estimates were determined using historical data about the share of State transportation revenue attributable to the motor fuel excise tax.*

### **Section 4.2 Motor Fuel Excise Tax Floor**

Under current law, the motor fuel excise tax rate is indexed to a weighted average of energy inflation and State population growth. Each calendar year, the tax rate is determined by applying a growth percentage to the rate in effect for the previous year. This growth percentage is equal to 75% of the State population growth rate plus 25% of the CPI-U: Energy growth rate. Population and energy prices can move up or down, so the motor fuel tax rate may increase or decrease each year. The bill sets a floor on the 2021 motor fuel excise tax rate equal to the rate for calendar year 2020 (36.1¢ per gallon). In 2022, the rate will revert to whatever the rate would be under current law.

To determine the possible fiscal impact of the rate floor, we forecasted the growth percentage for the 2021 rate using the State Demographer's population projections and Moody's Analytics forecast for the CPI-U: Energy. Applying this growth percentage of -2.4% to the 2020 motor fuel tax rate results in a forecasted 2021 rate of 35.2¢ per gallon. Thus, holding the rate at 36.1¢ per gallon is estimated to result in additional revenue of 0.9¢ per gallon. We multiplied 0.9¢ times the forecasted number of motor fuel gallons to be sold each month to obtain the total additional monthly revenue.

Motor fuel tax is collected with a one-month lag, so FY 2020-21 collections will include five months (January-May) of transactions at the 2021 rate. Collections for the remaining seven months of 2021 (June-December) will occur in FY 2021-22. The total estimated impact of the rate floor in FY 2020-21 is \$20.2M. The total estimated impact of the rate floor in FY 2021-22 is \$33.4M.

This additional motor fuel excise tax revenue is expected to be allocated among the various funds according to the schedule described in the next section of this Fiscal Note.

### **Section 4.6 – Modify Fuel Tax Distribution**

Under current law, revenue collected from the motor fuels excise tax of 1/2¢ per gallon tax is distributed to the Underground Storage Tank Cleanup Fund and the Water and Air Quality Account. The remaining revenue is allocated 71% to the Highway Fund and 29% to the Highway Trust Fund. Of the amount allocated to the Highway Fund, 1/6 of 1% is allocated to the Wildlife Resources Fund and 1% is allocated to the Shallow Draft Navigation Channel Dredging and Aquatic Weed Fund. The table below shows the approximate allocation percentages under current law and as modified by Section 4.6 of the bill:

	Current Law	H.B. 77		
		FY 2020-21	FY 2021-22	FY 2022-23 forward
Highway Trust Fund	29.0000%	19.0000%	20.0000%	25.0000%
Highway Fund	70.1717%	80.0550%	79.0667%	74.1250%
<u>Special Funds</u>				
Wildlife Resources Fund	0.1183%	0.1350%	0.1333%	0.1250%
Shallow Draft and Aquatic Weed Fund	0.7100%	0.8100%	0.8000%	0.7500%

To determine the fiscal impact, we multiplied the new percentages by the forecasted revenue. For FY 2020-21, we used the May 2020 Consensus Revenue Forecast prepared by the Fiscal Research Division and the North Carolina Office of State Budget and Management (OSBM). For the following years, we used the May 2020 forecast prepared by OSBM and North Carolina Department of Transportation.

## **TECHNICAL CONSIDERATIONS**

N/A.

## **DATA SOURCES**

Moody's Analytics May 2020 Macroeconomic Forecast, North Carolina Department of Transportation, North Carolina Office of State Budget and Management

## **LEGISLATIVE FISCAL NOTE – PURPOSE AND LIMITATIONS**

This document is an official fiscal analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described in the Fiscal Analysis section of this document. This document only addresses sections of the bill that have projected direct fiscal impacts on State or local governments and does not address sections that have no projected fiscal impacts.

## **CONTACT INFORMATION**

Questions on this analysis should be directed to the Fiscal Research Division at (919) 733-4910.



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