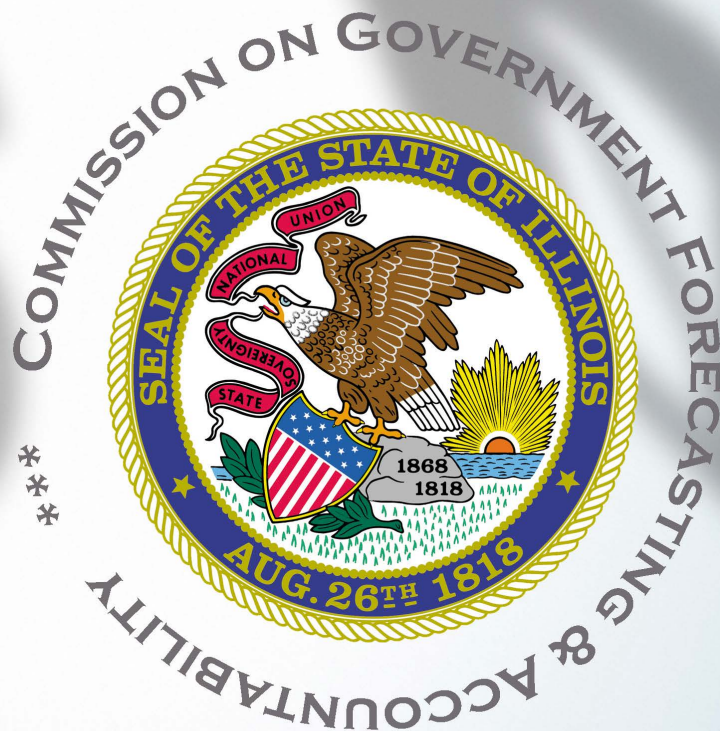


Motor Fuel

Pricing Factors, Tax Structure and Other Related Issues
Including the Commission's Response to House Resolution 0328

2011 Edition



Commission on Government Forecasting and Accountability

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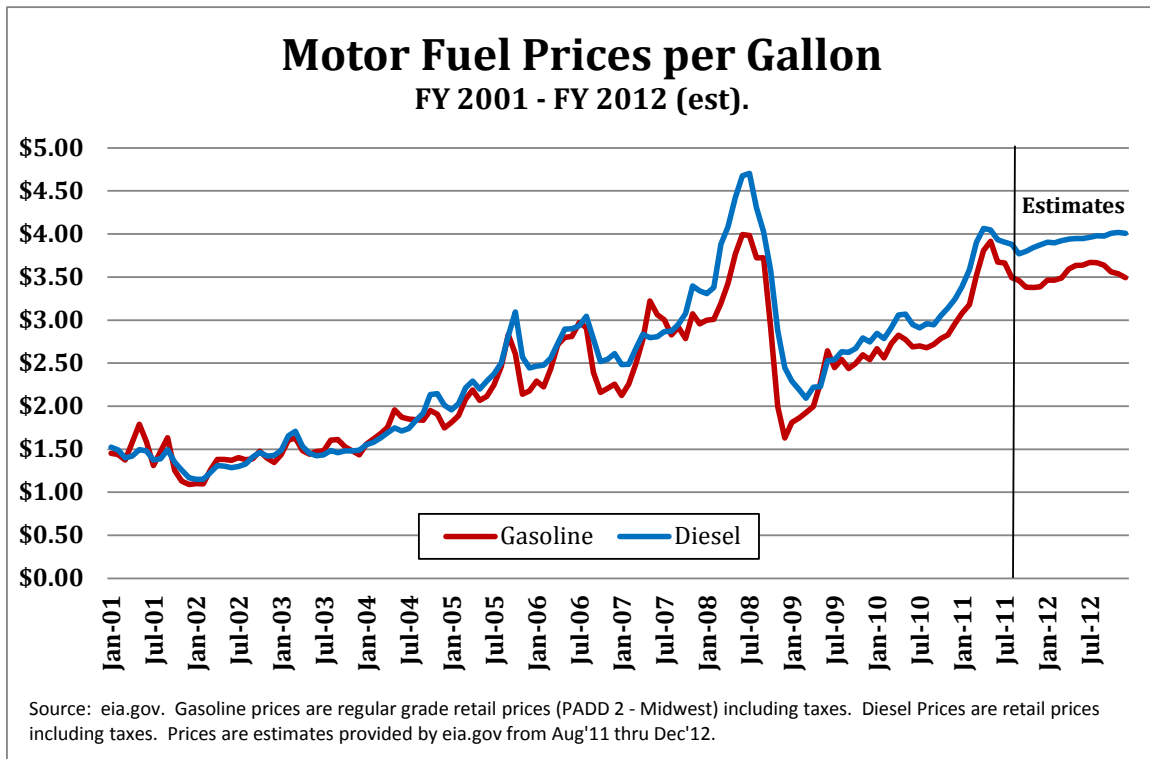
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TABLE OF CONTENTS

MOTOR FUEL REPORT 2011 Update and Response to House Resolution 0328 August 2011

	<u>PAGE</u>
Executive Summary	i
From the Well to the Pump	1
What Are the Causes of the Increases in Crude Oil Prices?	6
Outlook of Motor Fuel Prices in the Near Future	8
Tax Revenue from Motor Fuel in Illinois	10
House Resolution 0328	24

EXECUTIVE SUMMARY



Over the last several years, the prices of gasoline and diesel fuel have seen dramatic fluctuations. In the early 2000s, motor fuel prices hovered around the \$1.50 per gallon mark. As the decade went along the price of motor fuel began a bumpy uphill climb. In March 2007, the average monthly retail price for gasoline surpassed the \$3.00 per gallon mark for the first time. Just a little over a year later, in May 2008, the average prices neared, and in several specific locations, surpassed the \$4.00 mark. Diesel hit an average record high in July 2008 with an average price of \$4.70 per gallon. And although retail prices fell sharply at the end of 2008, the price of motor fuel steadily increased to near record prices in the Spring of 2011.

In our fast-paced society, transportation has become a crucial part of our world. As long as motor fuel stays affordable, this energy source is considered just an everyday expense. However, as the price rises, the comfort levels of consumers are affected because these higher prices force people to reevaluate their spending habits and look for alternative ways of getting from place to place. The higher the price of motor fuel, the more attention motor fuel prices receive.

The latest round of increases in motor fuel prices has created a great deal of attention from the public sector, lawmakers, and the press. Questions have arisen asking how motor fuel prices have become so high. The retail cost of gasoline is advertised for every motorist to see and, therefore, becomes an easy target for adversarial

conversation. While contentious, few people would be able to explain how the retail price was arrived at or what factors contributed to that final price determination.

The following report was created to provide a basic knowledge of the oil production cycle process and a discussion on the many factors that contribute to the price of motor fuel. It includes reasons why prices fluctuate the way they do and why the U.S. has experienced near-record prices over the past several years. The report also provides a detailed analysis on the various tax revenues from motor fuel in Illinois (with an emphasis on the State sales tax on motor fuel) and how these taxes affect the retail price of gasoline and diesel. Also included is an analysis on how Illinois' motor fuel tax structure compares with other states across the nation.

This is an update to the Commission's 2005 report on motor fuel, but also serves as a response to House Resolution 0328, which directs the Commission to "conduct an objective, non-political examination of our policy of charging 'ad valorem' Illinois sales taxes on motor fuel". A synopsis of information pertaining to this resolution directive is included at the end of the report.

Highlights of the report are summarized below.

- Motor fuel retail prices have risen from around \$1.50 per gallon in FY 2001 to prices nearing \$4.00 per gallon in the Spring of 2011. The latest projections from the U.S. Energy Information Administration predict prices to average between \$3.00 and \$4.00 per gallon over the several years.
- The oil production cycle process includes the exploration of petroleum, transportation to refineries, production and distillation of the motor fuel, and transportation to retailers. Any interruptions or problems occurring during this process can have significant effects on the cost of motor fuel.
- According to the Energy Information Administration, in 2010, refining cost and profits made up approximately 7% of the retail price of gasoline. Distribution and marketing made up approximately 10%, while the actual price of crude oil made up a little over 68%. The remaining 14% stemmed from taxes. (These are nationwide averages).
- Competition, seasonality, refinery production problems, transportation problems, operating costs, and environmental programs are all factors contributing to the normal fluctuation of motor fuel prices. However, the factors that have greatly influenced the higher prices in recent years in the U.S. include the growth in worldwide demand for petroleum; low worldwide spare production capacity; disruptions to supply (or curbs on potential development of resources) from political events in Nigeria, Venezuela, Iraq, Iran, and Libya; production problems associated with Hurricane Katrina and other natural disasters; and the recent drilling explosion in the Gulf of Mexico.

- There are many different taxes on the sale of motor fuel including various federal, State, and local motor fuel taxes, as well as various sales taxes. The State taxes include the flat \$0.19 per gallon motor fuel tax on gasoline/gasohol (\$0.21 for diesel), the \$0.011 per gallon in environmental fees, and the State sales tax of 5% of motor fuel sales (imposed on the price before the inclusion of the State motor fuel tax). By State law, only 80% of the price of gasohol is subject to the State sales tax.
- A total of nearly 6.1 billion gallons of motor fuel were reported by the Department of Revenue to be used in Illinois in 2010. This included 0.6 billion gallons of gasoline, 4.3 billion gallons of gasohol, and 1.2 billion gallons of diesel fuel. While gasohol gallonage has increased dramatically over the last couple of years, the total amount of motor fuel consumed in Illinois has remained relatively stagnant over the same time frame.
- In FY 2002, when the average price of gasoline was \$1.34, the applicable State sales tax per gallon was approximately 5-cents per gallon. In FY 2005, at an average price of \$2.00 per gallon, the applicable State sales tax per gallon was approximately 8-cents per gallon. In FY 2011, at an expected average retail price of \$3.15 per gallon, the State sales tax per gallon is approximately 14-cents. The projected average retail price of \$3.50 in FY 2012 would include approximately 15-cents per gallon from the State sales tax.
- The Commission estimates that approximately \$260 million in sales tax revenue was generated from motor fuel in FY 2002. By FY 2008, this amount had risen to approximately \$752 million. As prices dropped in FY 2009 and FY 2010, sales tax revenue totals from motor fuel fell to \$567 million and \$578 million, respectively. Higher prices in FY 2011 and FY 2012 are estimated to bring in approximately \$679 million and \$756 million, respectively.
- Revenue increases from sales taxes on motor fuel do not necessarily translate to an equivalent increase in overall sales tax revenues. This is because more money spent on motor fuel due to higher prices means there is likely less money spent in other areas. As an example, in FY 2008, despite the 25.3% estimated increase in sales tax revenue from motor fuel, overall sales tax receipts only increased 1.1%. This meant that all non-motor fuel sales tax revenues declined 1.1% in FY 2008.
- In terms of the State motor fuel tax (gallonage tax), Illinois has the 31st highest rate in the nation at \$0.201 per gallon (including environmental fees). In comparison to neighboring states, Illinois' rate is lower than the tax rates of Wisconsin (\$0.329 per gallon), Kentucky (\$0.259), and Iowa (\$0.220), but is higher than Michigan (\$0.190), Indiana (\$0.180), and Missouri (\$0.173).
- Illinois had only the 41st highest rate of motor fuel tax collections on a per-capita basis at a rate of \$103 per capita. All states neighboring Illinois (except Michigan at \$99) had higher per-capita rates than Illinois (Indiana \$118; Iowa \$146; Kentucky

\$152; Missouri \$121; and Wisconsin (\$172). However, if Illinois included sales tax revenue from motor fuel, its per-capita value would rise from \$104 to \$149 per capita and its ranking would rise from 41st to 18th. The ranking would likely be even lower if it were not for the amount of public transportation available in the Chicago metropolitan area that limits the amount of revenue collected from motor fuel related tax revenues, thus, keeping the per-capita values artificially high.

- In their latest release (May 2011), the American Petroleum Institute shows Illinois having the 3rd highest gasoline tax total (including all State, Federal, and Local taxes) in the nation at \$0.69 per gallon. Only Connecticut (\$0.703) and New York (\$0.691) had higher rates. Neighboring states Indiana (\$0.62) and Michigan (\$0.621) were close behind Illinois. Not surprisingly, all of the highest ranked states also imposed some sort of sales tax on motor fuel in addition to their standard motor fuel tax. Other states neighboring Illinois were notably lower than Illinois. This includes Wisconsin (\$0.513), Iowa (\$0.404), and Missouri (\$0.357).
- In the Summer of 2000, to assist Illinois motorists with “higher gas prices” at that time, the State suspended the 5% State portion of the sales tax applied to motor fuel and gasohol, for the period July 1, 2000, through December 31, 2000. The Commission estimated that the suspension of sales tax on motor fuel cost the State approximately \$157 million. However, at today’s prices, the cost to the State for a similar six-month suspension could be as high as \$400 million. (While it could be argued that this \$400 million consumer savings could be spent on other taxable goods in Illinois, applying the State’s 6.25% to the \$400 million savings would only offset \$25 million of this “lost” revenue).
- While any reduction/elimination of motor fuel taxes would be welcomed by businesses and consumers, this would create a significant dent in State and local government coffers throughout Illinois. Without these taxes, replacement revenues would have to be found or equitable spending cuts would need to follow.

From the Well to the Pump

To best understand how the prices of motor fuel are constructed, a basic understanding of the formulation process is necessary. Gasoline is made up of various hydrocarbons derived from petroleum. Petroleum can be found all over the world, but is heavily produced in the Middle East. The U.S. Energy Information Administration (EIA) states that the United States does not produce enough crude oil to make all of the motor fuel used by American motorists. Approximately 37% of the crude oil used by U.S. refineries is produced in the United States, with the rest imported from other countries.

Though the exploration technology of petroleum has improved over the years, it still can be affected by natural occurrences, such as storms, hurricanes, or even difficult terrain. These problems can cause difficulty in exploration and could lead to higher-than-normal exploration costs.

Once the petroleum has been located, the substance must be transported to the next stage of the gasoline process. The movement of crude oil is accomplished through various means of transportation. Crude oil from overseas is transported through the shipping process. After the Exxon Valdez disaster in 1989, the shipping of crude oil has seen many improvements such as double hulls, segregated ballast tanks, and redundant steering systems. These changes have made oil tankers safer and more reliable than they were previously. However, these improvements are costly, which can affect the price structure of gasoline.

When transporting petroleum over land, trucks can be utilized, but much of the petroleum is moved by pipeline. This is considered the most cost-effective means of transferring crude oil from the port facilities to the tankers. Although cheaper, pipeline operators still incur operating and labor costs, as well as various maintenance fees. If a pipeline should break, the cost of gasoline can be significantly affected. Transportation costs can vary depending on the distance from place to place. Obviously, it costs more to ship oil from the Middle East to the U.S. than it does from other locations in the Western Hemisphere. There are also added costs if a tanker is too large to dock and must be unloaded at an offshore facility.

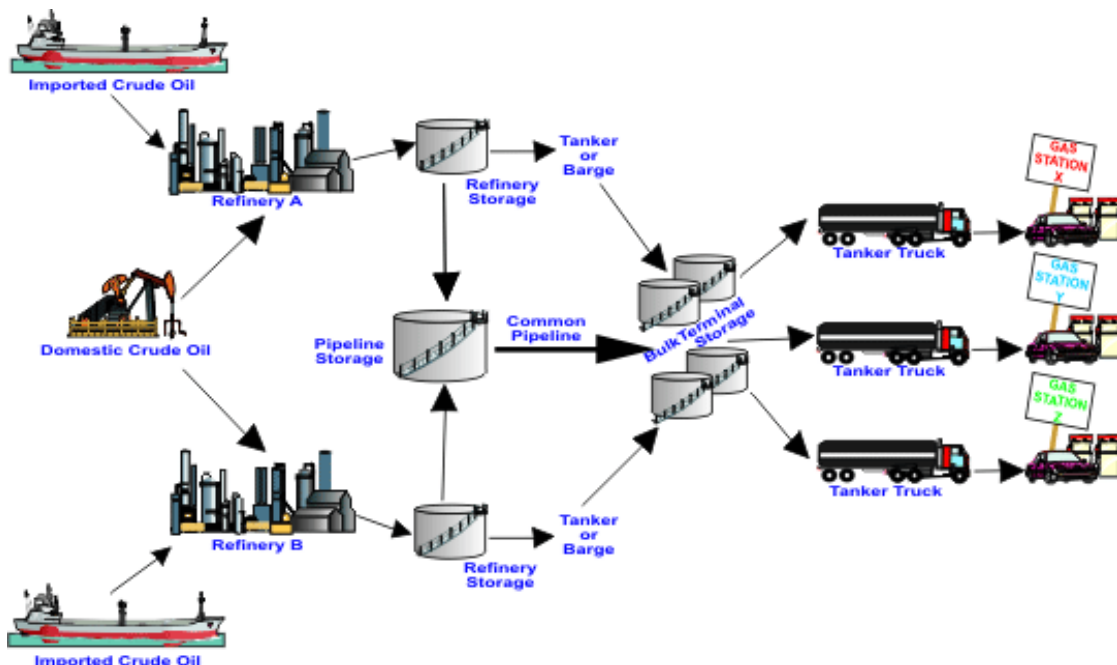
Another factor that can affect the cost of transporting fuel is war. For example, fighting in the Middle East or even the threat of war can cause insurance rates to dramatically increase due to the higher likelihood that oil shipments could be interrupted. Higher insurance rates equate to higher oil prices. War can also affect gasoline prices in situations where a large-scale military operation is underway and there is a high demand for jet fuel. A high demand for fuel relative to its availability causes prices to increase.

Once the petroleum has been transported, it is ready to be produced into gasoline. There are many hydrocarbons in petroleum, but only the ones that can evaporate under engine conditions can be used in gasoline. Because crude petroleum consists of

hydrocarbons that are both more and less volatile than gasoline, gasoline must be separated from petroleum through a process called distillation. Distillation, however, provides an amount and quality of gasoline that is considered insufficient. Therefore, gasoline production must be supplemented with more sophisticated refinery processes. These processes take the less and more volatile petroleum hydrocarbons and turn them into hydrocarbons that have the correct volatility. The refinery process also adds specialty chemicals to the blend to enhance the performance of the hydrocarbons. Through this, gasoline can be created to have the desirable characteristics necessary for good engine performance.

Refining costs and profits can vary from region to region of the United States. This is because different gasoline formulations are required in different parts of the country. Some areas of the country are required to use reformulated motor fuel with special additives to reduce carbon monoxide, smog, and other air pollutants that occur when gasoline is burned or evaporated. Other locations have environmental restrictions on fuel transportation and storage, which can add to the cost of producing, storing, and distributing gasoline. The EIA states that about 1/3 of the gasoline sold in the country is reformulated.

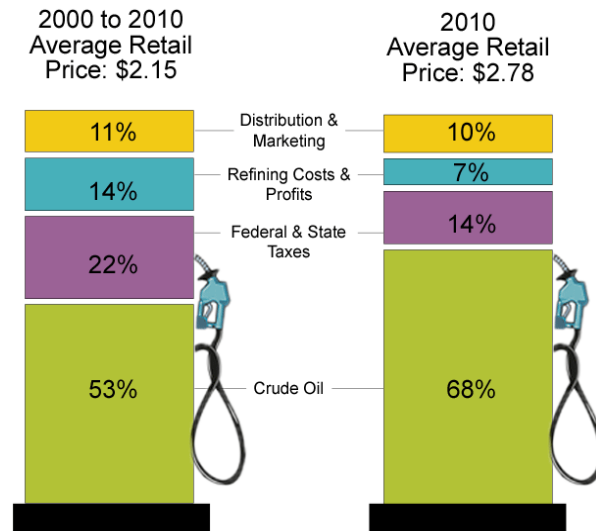
After the gasoline is produced, it is ready to be distributed to retailers. Again, transportation is needed for this to be accomplished. Ironically, the cost of transporting gasoline through fuel trucks depends a lot on the cost of gasoline. If gasoline prices increase, the cost of transporting the gasoline also increases, resulting in the costs being passed on to the consumer. Again, the cheapest way to transport gasoline in the United States is through the dozens of pipelines that crisscross the country. The 5,519-mile Colonial pipeline system between New York and Houston carries approximately 100 million gallons of petroleum products a day.



Once at the retailers, even more costs are added to the price of gasoline. There are several factors that contribute to these added costs. The first is for the general upkeep of running a gasoline station. This would include costs for maintenance, employee salaries, insurance, property taxes, as well as profit margins. The amount of this added cost varies from retailer to retailer because of various factors, such as the hours of operation, the brand of gas, how the gas is purchased, or if the retailer is part of a convenience store.

According to the EIA, in 2010 (using an average retail price of \$2.78), refining costs generally made up approximately 7% of the price of a gallon of regular gasoline. Approximately 10% comes from distribution and marketing costs, while 68% of the cost comes from crude oil. (Due to current prices over \$3.00 per gallon, the crude oil percentage is now significantly higher. In 2000, crude oil's composition made up only 40% of the total costs). The rest of the retail cost that consumers pay, approximately 14%, stems from taxes. (Note: These are national figures. As discussed later in the report, due to higher combined tax rates, Illinois' percentage stemming from taxes was near 20%).

What do we pay for in a gallon of Regular Grade gasoline?



Source: U.S. Energy Information Administration.

The State of Illinois imposes several taxes on motor fuel that affect the retail price, aside from the 18.4 cents per gallon federal tax. A State motor fuel tax of 19 cents per gallon is applied to gasoline, while 21.5 cents per gallon tax is applied to diesel fuel. This does not include the 1.1 cents per gallon in environmental fees that are added to the price. In addition, a State sales tax of 5% and a local sales tax of 1.25% are also applied to the price of motor fuel. Some home-rule units can collect additional taxes

on motor fuel, whether it is from a local motor fuel tax, or from additional local sales taxes. A detailed synopsis of these various taxes is included later in the report.

Another factor that contributes to the differences in the cost of gasoline is the grade of gasoline sold at the stations. Higher-graded gasoline costs more to make and, therefore, is sold at a higher price. There is a common feeling among many motorists that premium gasoline is the best fuel for their car, even if only a small percentage of vehicles actually recommend the higher grade. These motorists are willing to pay premium's higher cost, rather than unleaded gasoline's lower costs, in order to obtain, what they believe is, maximum performance for their automobile. Knowing that motorists are willing to pay this extra amount, many retailers will often raise their prices slightly as a way of reaching their desired profit margin.

The profit margin is an interesting portion of the price of gasoline, because it has a tendency to fluctuate quite a bit in the retail price of gasoline. One factor that contributes to the dramatic fluctuation of the profit margin, otherwise known as the "spread", is the economic force of competition. Profit margins seldom stay consistent because gas stations are constantly fighting for the business of the consumer.

An article from the National Association of Convenience Stores discusses the competition factor and how it affects the profit margin in their article entitled, "How do Retailers Get – and Sell – Gasoline?":

As wholesale prices change daily, retailers are forced to constantly adjust their target retail price. However, because not every retailer receives deliveries at the same time nor incurs the same change in wholesale prices, competition does not always allow the retailer to immediately or completely adjust for changes in costs. This creates a volatile situation in which retail fuel profitability fluctuates continuously. Consequently, it is important for retailers to evaluate the profitability of their fuel operations over a period of time rather than at any one particular moment.

When wholesale prices are increasing, competition often prevents the retailer from passing the higher costs through to the consumer immediately, resulting in a lower retail markup and reducing the retailer's profitability. However, once wholesale prices stabilize or begin to decline, competition often enables retailers to maintain retail prices for a while, thereby increasing their markup and recovering the profits lost when wholesale prices were rising. Over time, the average retail markup remains relatively stable.

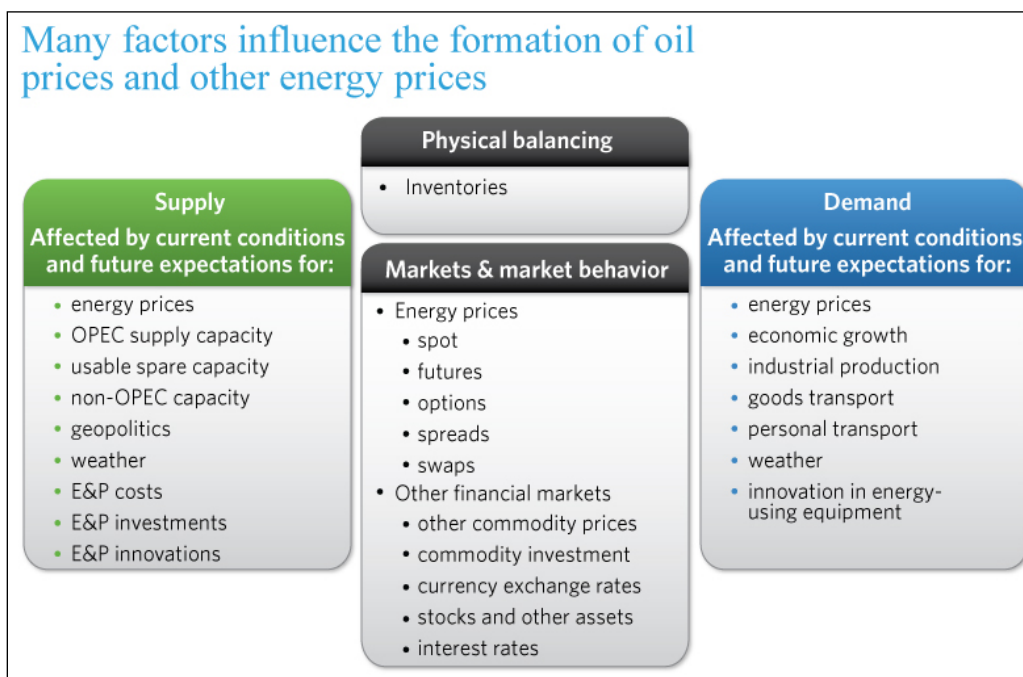
For example, in 2009, national average retail prices ranged from a weekly low of \$1.639 to a weekly high of \$2.683, according to OPIS.

Meanwhile, the national average retail markup varied from 4.9 cents per gallon to 30.3 cents. Over the course of the year, however, the average retail price was \$2.334 and the average retailer markup was 13.1 cents.

Retail profitability, however, is much lower than the retail markup. From this 13.1 cents per gallon, retailers had to pay for equipment, associated operating expenses, and credit card fees (assessed on average at 2 percent of each transaction completed with a credit or debit card). The average breakeven for 2009 is estimated at approximately 11 to 12 cents per gallon. Consequently, the retailer profitability for 2009 was 1 to 2 cents per gallon, at best, on average.

This situation points to a common phenomenon in the price of motor fuel. As rack prices (the price that retailers actually paid for the motor fuel) increase, the price margins tend to decrease. Conversely, as the average rack price of gasoline decreases, the average price margins tend to increase. This is because when market conditions cause prices to be higher, consumers will seek out the best price to purchase their fuel. Competition often keeps these prices lower than what the retailer would like to charge, thus lowering their profit margin.

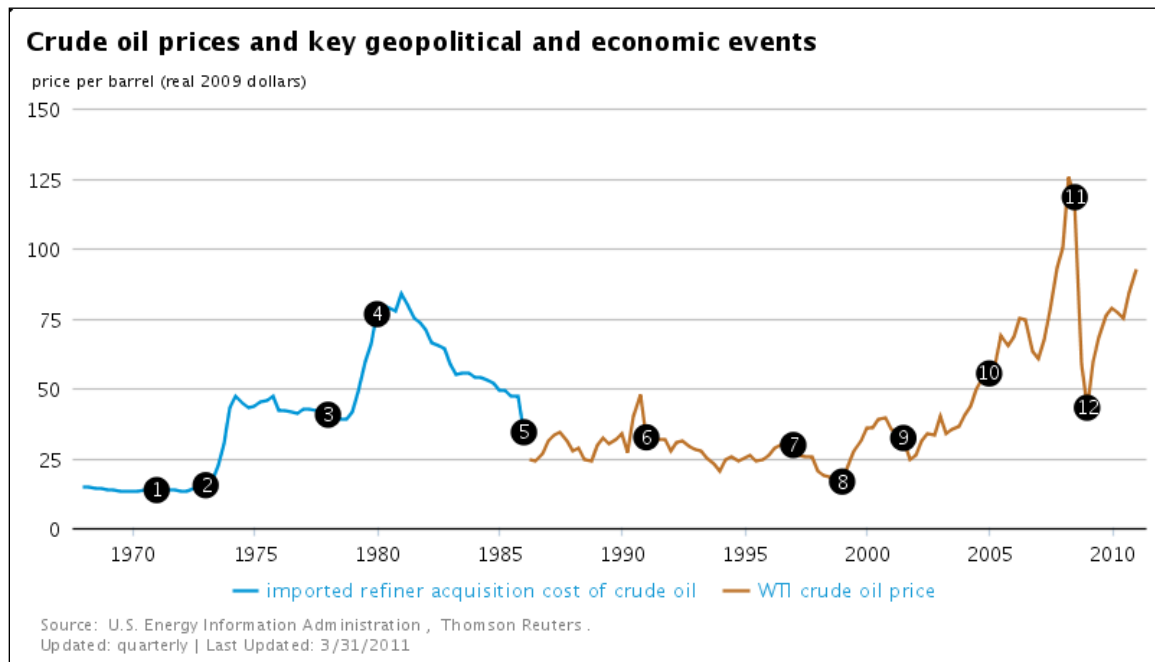
When market prices decline, the retailer will often lower their prices, but not to the extent they could. This is because during times of decreasing prices, the consumer's interest in prices wanes and there is less interest in shopping for the lowest price. This allows retailers to charge prices at slightly higher prices that allow them to retain some of the price margins that they lost when they had to compete for the consumer's dollar.



Source: www.eia.gov/finance/markets/

What Are the Causes of the Increases in Crude Oil Prices?

The most prominent factor that influences the price of motor fuel is the price of crude oil. Not only is this the largest portion of the price of motor fuel, but it also is the most volatile. This volatility is the reason that gasoline prices have fluctuated so dramatically over the last several years. A recent story by the Energy Information Administration (published on June 12, 2011 and can be accessed at the EIA's website at www.eia.gov/finance/markets/spot-prices.cfm) helps explain this volatility and the specific factors that have influenced U.S. motor fuel prices over the last several decades. A graph accompanying this article is shown below.



Key for Above Graph: 1: US spare capacity exhausted; 2: Arab Oil Embargo; 3: Iranian Revolution; 4: Iran-Iraq War; 5: Saudis abandon swing producer role; 6: Iraq invades Kuwait; 7: Asian financial crisis; 8: OPEC cuts production targets 1.7 mmbpd; 9: 9-11 attacks; 10: Low spare capacity; 11: Global financial collapse; 12: OPEC cuts production targets 4.2 mmbpd.

Both crude oil and petroleum product prices can be affected by events that have the potential to disrupt the flow of oil and products to market, including geopolitical and weather-related developments. These types of events may lead to actual disruptions or create uncertainty about future supply or demand, which can lead to higher volatility in prices. The volatility of oil prices is inherently tied to the low responsiveness or "inelasticity" of both supply and demand to price changes in the short run. Both the stock of oil-using equipment and oil production capacity are relatively fixed in the near-term. It takes years to develop new supply sources or vary production, and it is very hard for consumers to switch to other fuels or increase fuel efficiency in the near term when prices

rise. Under such conditions, a large price change can be necessary to re-balance physical supply and demand following a shock to the system.

Much of the world's crude oil is located in regions that have been prone historically to political upheaval, or have had their oil production disrupted due to political events. Several major oil price shocks have occurred at the same time as supply disruptions triggered by political events, most notably the Arab Oil Embargo in 1973-74, the Iranian revolution and Iran-Iraq war in the late 1970s and early 1980s, and Iraq's invasion of Kuwait in 1990. More recently, disruptions to supply (or curbs on potential development of resources) from political events have been seen in Nigeria, Venezuela, Iraq, Iran, and Libya.

Given the past history of oil supply disruptions emanating from political events, market participants are always assessing the possibility of future disruptions and their potential impacts. In addition to the size and duration of a potential disruption they also consider the ability of other producers and storage withdrawals to offset a potential supply loss. For example, if the market has ample spare production capacity to offset a possible disruption, its likely impact on prices would be smaller than if spare production capacity was much lower. When there are significant concerns about the potential for a disruption at a time when spare capacity and inventories are not seen as sufficient to substantially offset the associated loss in supply, prices may be above the level that might be expected if only current demand and supply were considered, as forward-looking behavior adds a "risk premium."

Weather can also play a significant role in oil supply. Hurricanes in 2005, for example, shut down oil and natural gas production as well as refineries. Petroleum product prices increased sharply as supplies to the market dropped. Severely cold weather in winter can stretch the capability of the market to supply product and push up prices. Other events such as refinery outages or pipeline problems can restrict the flow of oil and products, resulting in higher prices.

However, the influence of these types of factors on oil prices tends to be relatively short lived. Once the problem subsides and oil and product flows return to normal, prices usually return to previous levels.

Outlook of Motor Fuel Prices in the Near-Future

Every month, the Energy Information Administration releases their Short-Term Energy Outlook. In these releases, the EIA provides insightful information on reasons for the fluctuation in crude oil and motor fuel prices.

In their June 2011 release, the EIA stated that retail gasoline prices averaged near \$4.00 per gallon during the beginning of May due to unexpected refinery outages and disruptions in distribution caused by the flooding of the Mississippi River. This temporarily counterbalanced the impact of lower crude oil prices. However, after these refinery outages were corrected, retail gasoline prices began falling. The EIA predicted May would have the highest prices of the driving season, which so far has been the case.

Although the EIA predicts retail gasoline prices will fall to around \$3.50 per gallon by the end of summer, this price is still nearly 30% higher than it was just a year ago. In their August 2011 release, the EIA highlighted several issues dealing with crude oil prices that could impact motor fuel prices in the future. An excerpt from this release is shown below.

(This outlook can be found at www.eia.gov/emeu/steo/pub/contents).

EIA expects the U.S. average refiner acquisition cost of crude oil will rise from \$100 per barrel in 2011 to \$107 per barrel in 2012 as global spare production capacity and inventories continue to decline. This forecast assumes that U.S. real gross domestic product (GDP) grows by 2.4 percent this year and 2.6 percent next year, while world oil-consumption-weighted real GDP grows by 3.4 and 4.1 percent in 2011 and 2012, respectively. These assumptions do not fully reflect recent economic and financial developments that point towards a weaker economic outlook and also contributed to a sharp drop in world crude oil prices during the first week of August. There is a significant downside risk for oil prices if economic and financial market concerns become more widespread or take hold.

The regular-grade gasoline monthly average retail price fell from \$3.91 per gallon in May to \$3.65 per gallon in July, reflecting the decline in crude oil prices from their April peak and a recovery from unexpected refinery outages. Projected regular-grade gasoline prices average \$3.58 per gallon and \$3.44 per gallon in the third and fourth quarters of 2011, respectively, about 6 cents per gallon below last month's Outlook. EIA forecasts that the annual average regular-grade gasoline retail price will increase from \$2.78 per gallon in 2010 to \$3.53 per gallon in 2011 and to \$3.64 per gallon in 2012 due to increases in oil prices. The increase

in retail prices reflects not only the higher cost of crude oil but also changes in average U.S. refinery gasoline margin (the difference between refinery wholesale gasoline prices and the average cost of crude oil) from \$0.34 per gallon in 2010 to \$0.48 per gallon in 2011 and \$0.43 per gallon in 2012.

EIA expects that on-highway diesel fuel retail prices, which averaged \$2.99 per gallon in 2010, will average \$3.83 per gallon in 2011 and \$3.96 per gallon in 2012. Projected U.S. refinery diesel fuel margins increase from an average of \$0.38 per gallon in 2010 to \$0.62 per gallon in 2011, then fall to an average of \$0.55 per gallon in 2012.

Due to the complexity of factors that influence the price of motor fuel, the estimates provided by the EIA or any organization must be taken with the understanding that these estimates can change quickly. That is why it is not surprising that the below graph displaying experts predictions for crude oil prices, as reported by cnn.com, have such a wide range of possibilities.



Tax Revenue from Motor Fuel in Illinois

Over the past decade, there has been a dramatic fluctuation in motor fuel prices. In FY 2002, retail gasoline prices averaged \$1.34 per gallon. In the subsequent six fiscal years, the average price steadily increased to a level of \$3.29 per gallon in FY 2008. In FY 2009, the average price fell to \$2.56 per gallon, before creeping up to \$2.71 per gallon in FY 2010. In FY 2011, the average retail price rose steadily again to a Statewide average price of approximately \$3.15 per gallon. (Diesel prices saw similar trends but at slightly higher prices). The latest projections (August 2011) from the Energy Information Administration (www.eia.doe.gov/steo) estimate FY 2012 prices to average \$3.50 per gallon for gasoline/gasohol and \$3.88 per gallon for retail diesel fuel.

The Commission has often been asked what effect these higher prices have had (and will have) on Illinois tax revenues that come from motor fuel. There are two prominent State taxes on motor fuel: the motor fuel tax and the sales tax on motor fuel. The following section takes a look at these two taxes, with the main emphasis on the more volatile State sales tax on motor fuel.

The Illinois Motor Fuel Tax

The State's motor fuel tax is equal to 19-cents per gallon (21.5-cents for diesel and other special fuels). There is also a 0.3 cents per gallon tax for the Underground Storage Tank Fund (until 2025) and a 0.8 cents per gallon environmental impact fee (until 2025). Below is a rate summary of the motor fuel tax since its implementation in 1927:

<u>Tax per gallon</u>			<u>Tax per gallon</u>			<u>Tax per gallon</u>		
Year	Gasoline	Diesel	Year	Gasoline	Diesel	Year	Gasoline	Diesel
1927	2.0 cents	2.0	1967	6.0	6.0	1985	13.0	15.5
1929	3.0	3.0	1969	7.5	7.5	1989	16.0	18.5
1951	4.0	4.0	1983	11.0	13.5	1990	19.3	21.8
1953	5.0	5.0	1984	12.0	14.5	1996	20.1	22.6

Source: Illinois Tax Handbook for Legislators, 27th edition

The State's Motor Fuel Tax is imposed on the privilege of operating motor vehicles on public highways or waterways in Illinois. Motor fuel distributors and suppliers include the tax in their pump price. According to the Department of Revenue, distributors may sell special "tax free" fuel to the following customers:

- licensed supplier of special fuel
- licensed motor fuel distributors
- the federal government or one of its instrumentalities
- a municipal corporation owning and operating a local transportation system for public service in Illinois

- a privately owned public utility owning and operating certain transportation systems
- sale is one in which delivery is made outside Illinois
- uses fuel in a non-recreational type watercraft
- uses gasoline for propulsion of an aircraft
- uses dyed diesel for off-highway use only

Source: <http://www.revenue.state.il.us/Motorfuel/Mft/index.htm>

Revenue from the Motor Fuel Tax is distributed to several different areas. Sufficient amounts pay for administrative expenses, refunds, and Illinois Court of Claims judgments. Revenues are also distributed to several funds, which include: the Vehicle Inspection Fund, the State Boating Act Fund, the Grade Crossing Protection Fund, the State Road Fund, and the State Construction Account Fund. Remaining amounts are then apportioned to municipalities, counties, townships, and road districts throughout the State of Illinois.

Since reaching its current rate structure in 1996, revenue from the State's motor fuel tax has experienced relatively limited growth. For example, as shown in the below table, in 2000, \$1.384 billion was generated. In FY 2011, eleven years later, the total amount collected was \$1.347 billion, a difference of only 37 million or -2.6%.

State Motor Fuel Tax (Gross)
\$ in millions

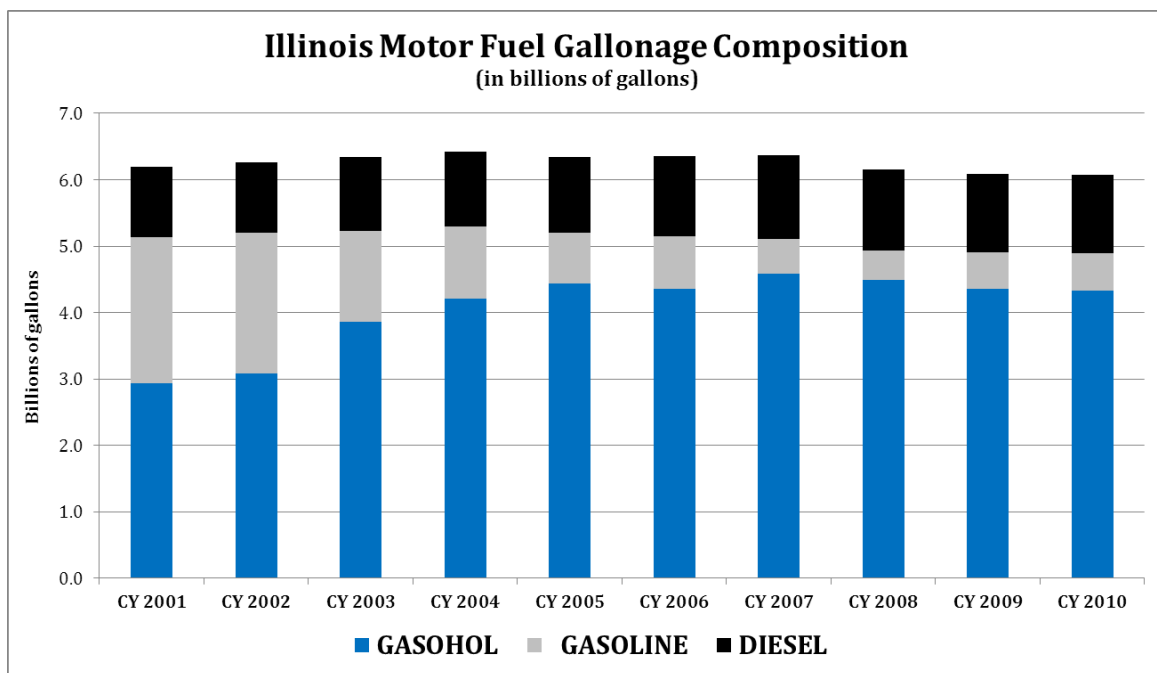
Fiscal Year	Revenue	% Change	Fiscal Year	Revenue	% Change
1990	\$937	-	2001	\$1,394	0.7%
1991	\$1,031	10.0%	2002	\$1,400	0.4%
1992	\$1,050	1.8%	2003	\$1,416	1.1%
1993	\$1,088	3.6%	2004	\$1,453	2.6%
1994	\$1,140	4.8%	2005	\$1,465	0.8%
1995	\$1,171	2.7%	2006	\$1,477	0.8%
1996	\$1,225	4.6%	2007	\$1,484	0.5%
1997	\$1,256	2.5%	2008	\$1,369	-7.7%
1998	\$1,325	5.5%	2009	\$1,499	9.5%
1999	\$1,355	2.3%	2010	\$1,371	-8.5%
2000	\$1,384	2.1%	2011	\$1,347	-1.8%

Source: Comptroller's Office Reports. Amounts shown also include fees.

The limited growth of the motor fuel tax is not surprising when looking at Illinois motor fuel gallonage statistics. As shown on the following graph, in CY 2010, nearly 6.1 billion gallons of motor fuel were reported by the Department of Revenue to be used in Illinois. This included 0.6 billion gallons of gasoline, 4.3 billion gallons of gasohol, and 1.2 billion gallons of diesel fuel. While motor fuel prices have increased dramatically over the last several years, the total amount of motor fuel consumed in Illinois has remained relatively stagnant over the same time frame. These limited

fluctuations in gallonage levels explain why revenue collections from the State’s motor fuel tax have also remained relatively stagnant over the past decade.

Albeit slight, motor fuel gallonage has dropped 5% over the last six years from its highpoint of 6.4 billion gallons in CY 2004. However, this minor downward trend is not that surprising considering the recent marketing push for vehicle owners to trade in their “gas guzzlers” to purchase better fuel-efficient vehicles. Cars with higher miles-per-gallon figures would obviously require less gallons of fuel over the course of a year. As the efficiency of automobiles improves, minor declines in motor fuel gallonage and motor fuel tax receipts would be expected. However, even with this minor decline in motor fuel tax receipts, this revenue source continues to be significantly more stable than that of the sales tax on motor fuel.



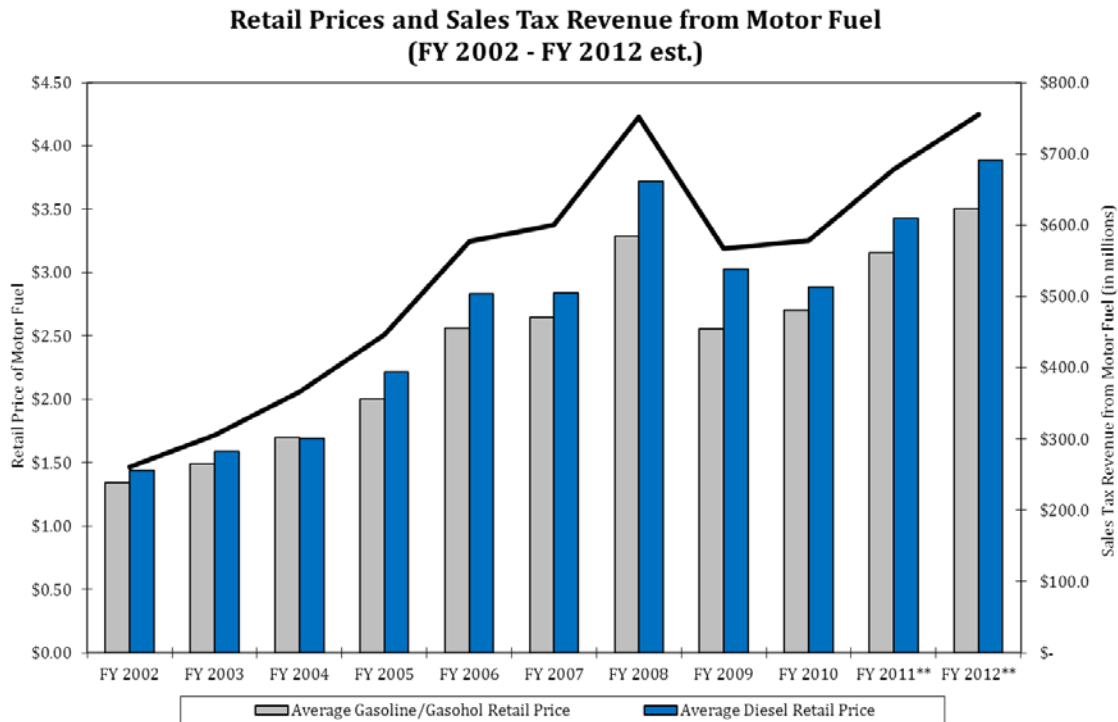
The State Sales Tax on Motor Fuel

While the State's motor fuel tax is based on the amount of gallons of motor fuel sold, the sales tax on motor fuel, on the other hand, is dependent on the price of fuel. The State sales tax is equal to 5% of the selling price of motor fuel. (Only 80% of the price of gasohol is subject to the State sales tax). Because of this, any dramatic fluctuation in the price of gasoline or diesel leads to a corresponding amount of sales tax collected from this sale of motor fuel.

It was a decade ago that there was a public outcry over motor fuel prices in Illinois. During the summer of 2000, gasoline retail prices approached, and in some cases, surpassed the \$2.00 per gallon price mark. While a figure of \$2.00 per gallon would seem "cheap" by today's standards, this was in comparison to retail prices averaging less than \$1.00 per gallon in the Spring of 1999. The higher prices compared to typical prices at that time led State legislators to explore tax relief for motorists in Illinois. In response, a six-month suspension on the sales tax of motor fuel was enacted in FY 2001. In the follow-up analysis of this suspension, the Commission determined that this six-month tax break reduced sales tax revenues from motor fuel by approximately \$157 million.

Ever since this temporary tax suspension took place, the Commission has continued to track the approximate amounts of sales tax revenue from motor fuel that is collected each year. This is an "approximate" amount because the amount of sales tax revenue collected from motor fuel is difficult to calculate. This is because when sales tax receipts are collected, there is not a single line distinguishing how much sales tax revenue comes directly from motor fuel and how much comes from other sales. For example, sales taxes paid from a gas station would include sales tax from motor fuel as well as ancillary items, such as chips, soda, etc. However, the Commission is able to formulate approximate estimates of how much sales tax revenue is received from motor fuel in Illinois by utilizing gallonage figures from the Department of Revenue and reported Statewide motor fuel prices.

As shown in the following chart, the Commission estimates that the amount of sales tax revenue from motor fuel in FY 2011 (based on fiscal year average per-gallon prices of \$3.15 for gasoline and \$3.43 for diesel) was approximately \$679 million. This amount is estimated to be \$100 million higher than the FY 2010 estimated amount of \$579 million due to the higher motor fuel prices in FY 2011. However, these amounts are lower than the estimated \$752 million collected in FY 2008 when motor fuel prices averaged \$3.29 per gallon for gasoline and \$3.72 per gallon for diesel fuel.



** FY 2011 and FY 2012 prices and revenue amounts are based on price projections from the U.S. Energy Information Administration (June 2011).

When the State has a year when the sales tax revenue from motor fuel figure is higher than previous years, this is often portrayed as a “windfall” for Illinois. This especially seems to be the case in years when the year-over-year difference is dramatically different, as was the situation in FY 2008. While a revenue “windfall” may be true to some extent as it specifically relates to sales tax from motor fuel, the Commission repeatedly points out that if people are spending more on motor fuel, they are likely spending less on other areas.

For example, as shown in the following table, when motor prices dramatically increased in FY 2008, the Commission estimated sales tax revenues from motor fuel increased \$151.6 million or 25.3%. However, overall sales taxes in that fiscal year only grew 1.1%. This means that non-motor fuel sales tax revenues actually decreased by approximately 1.1% in FY 2008. It is estimated that motor fuel revenue made up approximately 10.4% of all sales tax revenues in that fiscal year.

Similarly, in FY 2010, it is estimated that sales tax revenues from motor fuel increased 2.1% in this fiscal year. However, overall sales tax revenues fell 6.9%. This means that non-motor fuel sales tax revenues decreased by a staggering 7.7% in FY 2010, reflecting the downward spiral of the nation’s economy at that time. Therefore, disappointing sales tax collections from other areas have more than offset FY 2010 increases caused by higher motor fuel prices. In times of economic struggles, once the “essentials” like fuel for transportation are paid for, the significant declines in non-

motor fuel sales tax revenue figures would suggest that fewer dollars are left for the consumer to spend in other areas.

Illinois Motor Fuel Related Sales Tax Data (revenue amounts in millions)						
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011 (est.)	FY 2012 (est.)
Average Gasoline/Gasohol Price:	\$2.64	\$3.29	\$2.56	\$2.71	\$3.15	\$3.50
Average Diesel Price:	\$2.84	\$3.72	\$3.03	\$2.89	\$3.43	\$3.88
Est. Sales Tax Revenue from Gasoline/Gasohol:	\$457.3	\$562.4	\$419.1	\$438.5	\$512.1	\$567.2
Est. Sales Tax Revenue from Diesel:	\$142.9	\$189.5	\$147.5	\$139.8	\$166.7	\$188.4
Est. Total Sales Tax Revenue from Motor Fuel:	\$600.3	\$751.9	\$566.6	\$578.3	\$678.7	\$755.6
Difference from Previous Year:	\$22.4	\$151.6	-\$185.3	\$11.7	\$100.5	\$76.9
Overall Sales Tax Revenues* (in millions):	\$7,136.1	\$7,214.6	\$6,772.8	\$6,308.0	\$6,707.3	\$6,875.0
Motor Fuel % of All Sales Tax Revenues:	8.4%	10.4%	8.4%	9.2%	10.1%	11.0%
Est. Growth of Sales Tax Revenue from Motor Fuel:	3.9%	25.3%	-24.6%	2.1%	17.4%	11.3%
Est. Growth of Non-Motor Fuel Sales Tax Revenues:	0.3%	-1.1%	-4.0%	-7.7%	5.2%	1.5%
Overall Growth in Sales Tax Revenues:	0.6%	1.1%	-6.1%	-6.9%	6.3%	2.5%
* Base Sales Tax Revenues (adjusting for amnesty-related revenues).						
Note: FY 2011 and FY 2012 estimates are based on projected motor fuel prices from the U.S. Energy Information Administration.						

In FY 2011, the Commission estimates that sales tax revenue from motor fuel grew 17.4% or \$100.5 million due to the large increases in motor fuel prices. Overall sales tax revenues grew 6.3% in FY 2011 (after amnesty revenues were removed), meaning all non-motor fuel related sales tax revenue increased by approximately 5.2%.

Looking ahead to FY 2012, using the latest motor fuel projected prices from the EIA, gasoline prices are expected to average \$3.50 per gallon in FY 2012 and diesel prices to average \$3.88 per gallon. Assuming then that motor fuel gallonage would decrease slightly (-1%), approximately \$756 million in sales tax revenues are anticipated to be collected from motor fuel in FY 2012. This would be an approximate \$77 million, or 11.3% increase over FY 2011 estimated levels. Therefore, if revenues come in as expected, sales tax revenues from motor fuel will then make up approximately 11.0% of all sales tax revenues in FY 2012.

How Much Does the Sales Tax on Motor Fuel Add to the Retail Price?

On a per gallon basis, the additional cost of the sales tax on motor fuel again depends on the cost of motor fuel (before taxes are applied). The Commission estimates that in FY 2001, with an average gasoline retail price of \$1.53, the State sales tax portion was approximately \$0.06 per gallon. In FY 2005, with the average retail price up to \$2.00 per gallon, the estimated additional cost due to the State sales tax was approximately \$0.08 per gallon. In FY 2011, the average price of \$3.15 consisted of approximately \$0.14 per gallon in sales tax. If the average price reaches \$3.50 in FY 2012 as projected, the State sales tax portion would be approximately \$0.15 per gallon.

Other Taxes Included in the Price of Motor Fuel:

Local Sales Tax: When the State imposes the sales tax, it is at a rate of 6.25%. The 5% portion goes to the State, but the remaining 1.25% is distributed to local governments across Illinois. In addition, some home-rule units and non-home rule units in Illinois impose an additional sales tax as well. This additional tax ranges from 0.25% in smaller communities to as much as 3.5% in the City of Chicago. Therefore, adding the State sales tax of 5.0%, the 1.25% local government sales tax, and the additional 3.75% in various home-rule taxes, in Chicago, the combined sales tax rate is 9.75%. In FY 2011, the Commission estimates that, on average, these local sales taxes in the City of Chicago account for an additional \$0.13 per gallon.

Federal Sales Tax: There is no federal sales tax.

Federal Motor Fuel Tax: The federal government imposes a motor fuel tax of \$0.184 per gallon on gasoline and \$0.244 per gallon on diesel fuel.

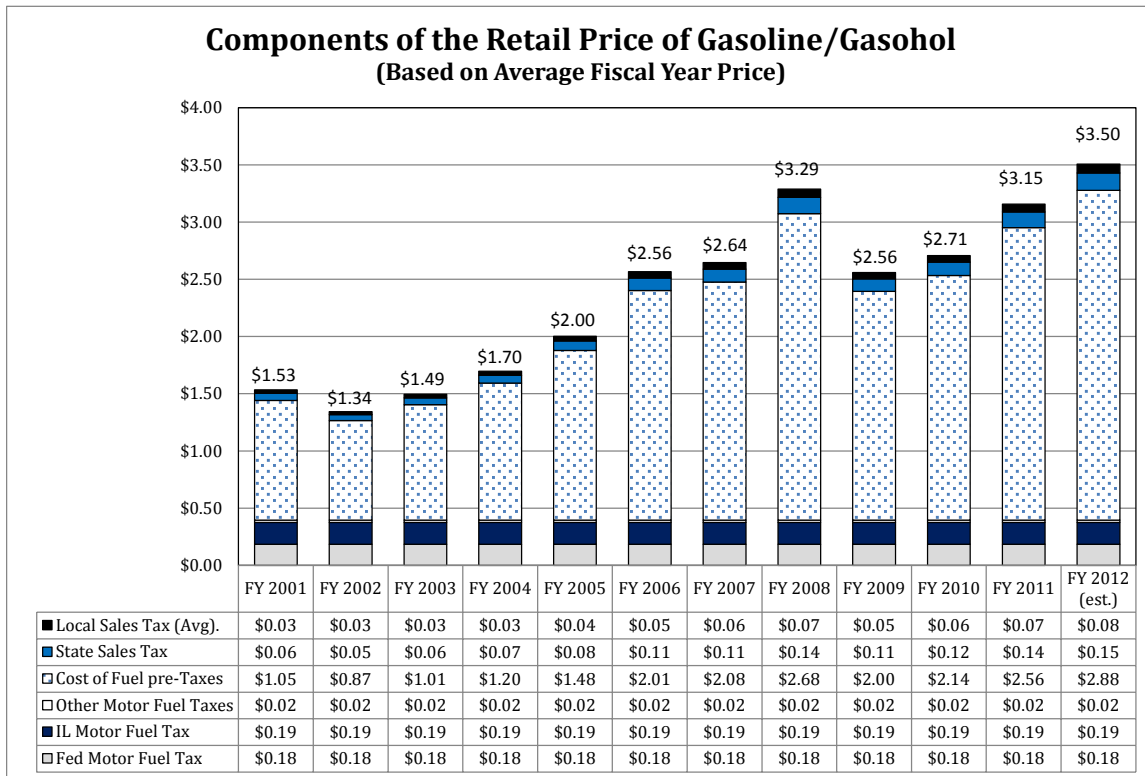
Local Motor Fuel Tax: Home-rule units can collect taxes on motor fuel by the gallon. Cook County collects 6 cents per gallon, and Chicago 5 cents. DuPage, Kane, and McHenry Counties can impose motor fuel taxes up to 4 cents per gallon without referendum approval. Each of these counties collects 4 cents. Any city of over 100,000 can also impose a tax of 1 cent per gallon by referendum. At least 31 home-rule cities impose their own taxes.

According to the Illinois Legislative Research Unit's *March 2011 Tax Handbook for Legislators*, here are the overall motor fuel tax rates (including the 19-cent State tax and the 18.4-cent federal tax) for various home-rule units across Illinois:

Highest Combined Motor Fuel Tax Rates per Gallon in Illinois <i>(Includes Federal, State, and Local Motor Fuel Taxes, but Excludes Sales Tax Portion)</i>					
	Federal	State	County	City	Total
Chicago	\$0.184	\$0.190	\$0.060	\$0.050	\$0.484
Oak Park	\$0.184	\$0.190	\$0.060	\$0.050	\$0.484
Alsip	\$0.184	\$0.190	\$0.060	\$0.030	\$0.464
Evanston	\$0.184	\$0.190	\$0.060	\$0.030	\$0.464
Evergreen Park	\$0.184	\$0.190	\$0.060	\$0.030	\$0.464
Park Ridge	\$0.184	\$0.190	\$0.060	\$0.030	\$0.464
Bolingbrook	\$0.184	\$0.190	\$0.040	\$0.050	\$0.464
Burbank	\$0.184	\$0.190	\$0.060	\$0.020	\$0.454
Cicero	\$0.184	\$0.190	\$0.060	\$0.020	\$0.454
Des Plaines	\$0.184	\$0.190	\$0.060	\$0.020	\$0.454
Lincolnwood	\$0.184	\$0.190	\$0.060	\$0.020	\$0.454
Morton Grove	\$0.184	\$0.190	\$0.060	\$0.020	\$0.454
Mount Prospect	\$0.184	\$0.190	\$0.060	\$0.020	\$0.454
Rolling Meadows	\$0.184	\$0.190	\$0.060	\$0.020	\$0.454
Rosemont	\$0.184	\$0.190	\$0.060	\$0.020	\$0.454
Berwyn	\$0.184	\$0.190	\$0.060	\$0.010	\$0.444
Dolton	\$0.184	\$0.190	\$0.060	\$0.010	\$0.444
Downers Grove	\$0.184	\$0.190	\$0.040	\$0.025	\$0.439
Woodridge	\$0.184	\$0.190	\$0.040	\$0.025	\$0.439
Naperville	\$0.184	\$0.190	\$0.040	\$0.020	\$0.434
Other Cook County Cities	\$0.184	\$0.190	\$0.060	\$0.000	\$0.434
Danville	\$0.184	\$0.190	\$0.000	\$0.056	\$0.430
Kane County Cities	\$0.184	\$0.190	\$0.040	\$0.000	\$0.414
McHenry County Cities	\$0.184	\$0.190	\$0.040	\$0.000	\$0.414
Pekin	\$0.184	\$0.190	\$0.000	\$0.040	\$0.414
Other DuPage County Cities	\$0.184	\$0.190	\$0.040	\$0.000	\$0.414
Carbondale	\$0.184	\$0.190	\$0.000	\$0.030	\$0.404
Galesburg	\$0.184	\$0.190	\$0.000	\$0.025	\$0.399
Freeport	\$0.184	\$0.190	\$0.000	\$0.020	\$0.394
Peoria	\$0.184	\$0.190	\$0.000	\$0.020	\$0.394
Sycamore	\$0.184	\$0.190	\$0.000	\$0.020	\$0.394
Channahon	\$0.184	\$0.190	\$0.000	\$0.010	\$0.384
Joliet	\$0.184	\$0.190	\$0.000	\$0.010	\$0.384
Moline	\$0.184	\$0.190	\$0.000	\$0.010	\$0.384
Rock Island	\$0.184	\$0.190	\$0.000	\$0.010	\$0.384
All Other Illinois Areas	\$0.184	\$0.190	\$0.000	\$0.000	\$0.374
Source: Illinois Tax Handbook for Legislators, 27th Edition					

Once all of the motor fuel-related taxes were applied, taxes made up approximately 19.0% of the retail price of motor fuel in FY 2011. This is in contrast to FY 2001 when taxes made up 31.7% of the total cost. Although sales tax amounts increase as the cost of motor fuel increases, the motor fuel taxes' flat rates mean they are not influenced by the price of fuel. Because of this, the higher the cost of motor fuel, the lower the overall percentage of motor fuel-related taxes will make up of the retail price of motor fuel.

A graph depicting the retail price of motor fuel and its various components are shown below. *Note: The local amounts shown are approximate Statewide average totals. For areas, like the City of Chicago, with additional local taxes, the composition of local taxes would be somewhat higher.*



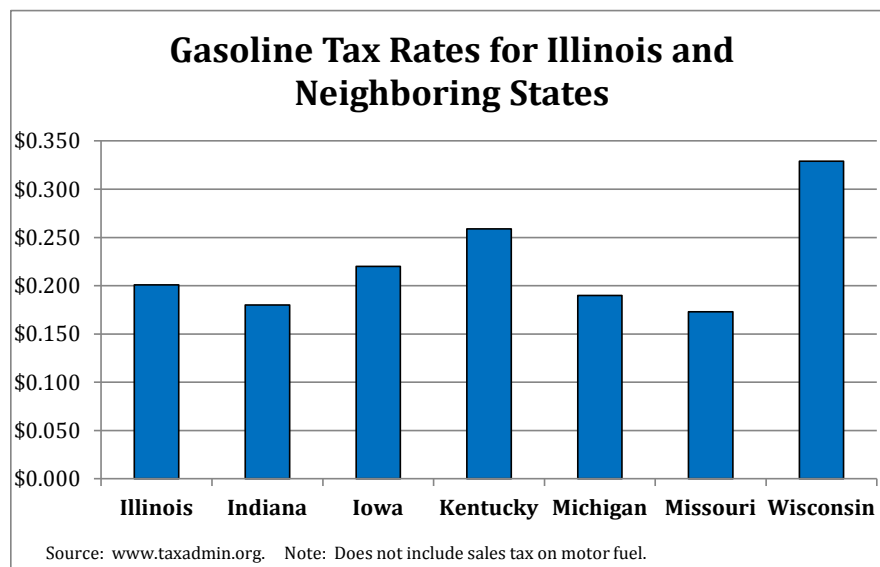
How Does Illinois' Motor Fuel Tax Rates Compare to the Other States?

There is much variance in the tax rates imposed upon motor fuel by states across the nation. Because of this, accurately comparing tax rates can be challenging, especially when adjusting for the additional tax that some states, like Illinois, add to the total by imposing a sales tax on the fuel purchases.

According to the American Petroleum Institute, besides Illinois, a handful of other states also collect general sales taxes on motor fuel. These states include California (2.25% state sales tax), Connecticut (7% gross earnings tax), Georgia (4% rate applied to stated average prices), Hawaii (4% sales tax), Indiana (7% sales tax), Michigan (6% sales tax), New York (4% sales tax), and Virginia (2.1% sales tax in certain locations).

To allow for an “apples to apples” comparison, on the following page is a table listing the motor fuel tax rates for each state as reported by the Federation of Tax Administrators (www.taxadmin.org). This listing shows the motor fuel tax rates for each state, including various motor fuel fees, such as environmental fees, imposed on motor fuel. These rates do not include the impact of the sales tax on the per-gallon total (but its existence is noted).

In terms of the total gasoline tax rate, Illinois has the 31st highest rate in the nation at \$0.201 per gallon. The highest rated state was Washington at \$0.375 per gallon. The lowest rated state was Alaska at \$0.08 per gallon. As shown below, in comparison to neighboring states, Illinois' rate appears to be in the middle of the pack. Illinois is lower than the tax rates of Wisconsin (\$0.329 per gallon), Kentucky (\$0.259), and Iowa (\$0.220), but is higher than Michigan (\$0.190), Indiana (\$0.180), and Missouri (\$0.173). Ranking comparisons in terms of diesel and gasohol were similar to the gasoline rankings.



State Motor Fuel Tax Rates (as of January 1, 2011)											
	Gasoline			Diesel Fuel			Gasohol				
	Excise	Fee/Tax	Total	Excise	Fee/Tax	Total	Excise	Fee/Tax	Total	Notes	
Alabama /1	16.0	2.0	18.0	19.0		19.0	16.0	2.0	18.0	Inspection fee	
Alaska	8.0		8.0	8.0		8.0	8.0		8.0		
Arizona	18.0	1.0	19.0	18.0	1.0	19.0	18.0	1.0	19.0	/3 LUST Tax	
Arkansas	21.5	0.3	21.8	22.5	0.3	22.8	21.5	0.3	21.8	Environmental fee	
California	35.3		35.3	18.0		18.0	18.0		18.0	Sales tax additional /8	
Colorado	22.0		22.0	20.5		20.5	22.0		22.0		
Connecticut	25.0		25.0	39.6		39.6	25.0		25.0		
Delaware	23.0		23.0	22.0		22.0	23.0		23.0	Plus 0.9% GRT	
Florida /2	4.0	12.2	16.2	16.0	14.0	30.0	4.0	12.2	16.2	Sales tax added to excise /2	
Georgia	7.5	10.1	17.6	7.5	11.3	18.8	7.5	10.1	17.6	Sales tax added to excise	
Hawaii /1	17.0		17.0	17.0		17.0	17.0		17.0	Sales tax additional	
Idaho	25.0	1.0	26.0	25.0	1.0	26.0	25.0	1.0	26.0	Clean water tax /7	
Illinois /1	19.0	1.1	20.1	21.5	1.1	22.6	19.0	1.1	20.1	Sales tax add., env. & LUST fee /3	
Indiana	18.0		18.0	16.0		16.0	18.0		18.0	Sales tax additional /3	
Iowa	21.0	1.0	22.0	22.5	1.0	23.5	19.0	1.0	20.0	Environmental fee	
Kansas	24.0		24.0	26.0		26.0	24.0		24.0		
Kentucky	24.5	1.4	25.9	21.5	1.4	22.9	24.5	1.4	25.9	Environmental fee /4 /3	
Louisiana	20.0		20.0	20.0		20.0	20.0		20.0		
Maine	29.5		29.5	30.7		30.7	29.5		29.5	/5	
Maryland	23.5		23.5	24.25		24.25	23.5		23.5		
Massachusetts	21.0		21.0	21.0		21.0	21.0		21.0		
Michigan	19.0		19.0	15.0		15.0	19.0		19.0	Sales tax additional	
Minnesota	27.5	2.1	29.6	27.5	2.1	29.6	27.5	2.1	29.6	Environment & Inspect fee /5	
Mississippi	18.0	0.4	18.4	18.0	0.4	18.4	18.0	0.4	18.4	Environmental fee	
Missouri	17.0	0.3	17.3	17.0	0.3	17.3	17.0	0.3	17.3	Inspection fee	
Montana	27.0		27.0	27.75		27.75	27.0		27.0		
Nebraska	26.4	0.9	27.3	26.4	0.3	26.7	26.4	0.9	27.3	Petroleum fee /5	
Nevada /1	24.0	0.805	24.8	27.0	0.750	27.75	24.0	0.805	24.805	Inspection & cleanup fee	
New Hampshire	18.0	1.625	19.6	18.0	1.625	19.625	18.0	1.625	19.625	Oil discharge cleanup fee	
New Jersey	10.5	4.0	14.5	13.5	4.0	17.5	10.5	4.0	14.5	Petroleum fee	
New Mexico	17.0	1.875	18.875	21.0	1.875	22.875	17.0	1.875	18.875	Petroleum loading fee	
New York	8.0	17.0	25.0	8.0	15.3	23.25	8.0	17.0	25.0	Petroleum Tax, Sales tax appl.	
North Carolina	32.5	0.25	32.8	32.5	0.25	32.75	32.5	0.25	32.75	/4 Inspection tax	
North Dakota	23.0		23.0	23.0		23.0	23.0		23.0		
Ohio	28.0		28.0	28.0		28.0	28.0		28.0	Plus 3 cents commercial	
Oklahoma	16.0	1.0	17.0	13.0	1.0	14.0	16.0	1.0	17.0	Environmental fee	
Oregon /1	30.0		30.0	30.0		30.0	30.0		30.0		
Pennsylvania	12.0	19.2	31.2	12.0	26.1	38.1	12.0	19.2	31.2	Oil franchise tax	
Rhode Island	32.0	1.0	33.0	32.0	1.0	33.0	32.0	1.0	33.0	LUST tax	
South Carolina	16.0	0.75	16.75	16.0	0.75	16.75	16.0	0.75	16.75	Inspection fee & LUST tax	
South Dakota /1	22.0	2.0	24.0	22.0	2.0	24.0	20.0	2.0	22.0	Inspection fee	
Tennessee /1	20.0	1.4	21.4	17.0	1.4	18.4	20.0	1.4	21.4	Petroleum Tax & Envir. Fee	
Texas	20.0		20.0	20.0		20.0	20.0		20.0		
Utah	24.5		24.5	24.5		24.5	24.5		24.5		
Vermont	19.0	5.98	24.98	25.0	4.0	29.0	19.0	5.98	24.98	Cleanup Fee & Trans. Fee	
Virginia /1	17.5		17.5	17.5		17.5	17.5		17.5	/6	
Washington	37.5		37.5	37.5		37.5	37.5		37.5	0.5% privilege tax	
West Virginia	20.5	11.7	32.2	20.5	11.7	32.2	20.5	11.7	32.2	Sales tax added to excise	
Wisconsin	30.9	2.0	32.9	30.9	2.0	32.9	30.9	2.0	32.9	Petroleum Insp. Fee	
Wyoming	13.0	1.0	14.0	13.0	1.0	14.0	13.0	1.0	14.0	Lecense tax	
Federal	18.3	0.1	18.4	24.3	0.1	24.4	13.0	0.1	13.1	/7 LUST tax	
/1 Tax rates do not include local option taxes. In AL, 1-3 cents; HI, 8.8 to 18.0 cent; IL, 5 cents in Chicago and 6 cents in Cook County (gasoline only); NV, 4.0 to 9.0 cents; OR, 1 to 3 cents; SD and TN, one cent; and VA 2%.											
/2 Local taxes fo gasoline and gasohol vary from 12.6 cents to 18.6 cents. Plus a 2.2 cent per gallon pollution tax.											
/3 Carriers pay an additional surcharge equal to AZ-8 cents, IL - 12.3 cents (g) 13.5 cents (d), IN-11 cents, KY - 2% (g) 4.7% (d).											
/4 Tax rate is based on the average wholesale price and is adjusted quarterly. The actual rates are: KY, 9%; and NC, 17.5-cents +7%.											
/5 Portion of the rate is adjustable based on maintenance costs, sales volume, cost of fuel to state government, or inflation.											
/6 Large trucks pay an additional 3.5 cents.											
/7 Tax rate is reduced by the percentage of ethanol used in blending (reported rate addumes the max. 10% ethanol).											
/8 California Gasoline subject to 2.25% sales tax. Diesel tax rate will decrease to 13.6-cents and sales tax rate will increase to 9%. Sales tax prepayment rates are not included above.											
Source: www.taxadmin.org/fta/rate/mf.pdf											

State by State Comparison of Motor Fuel Tax Rates and Collections						
	Gasoline Tax Rate* (cents per gallon)	State Ranking	2010 Motor Fuel Tax Collections (\$ in millions)*	State Ranking	MFT per Capita	State Ranking
Alabama	18.000	39	\$558.5	23	\$118.60	31
Alaska	8.000	50	\$23.8	50	\$34.12	49
Arizona	19.000	35	\$796.6	15	\$120.77	28
Arkansas	21.800	28	\$466.5	28	\$161.44	9
California	35.300	2	\$3,163.7	1	\$85.59	45
Colorado	22.000	26	\$602.3	21	\$119.88	30
Connecticut	25.000	16	\$498.2	27	\$141.60	19
Delaware	23.000	24	\$112.9	46	\$127.54	23
Florida	16.200	47	\$2,266.8	3	\$122.28	27
Georgia	17.600	41	\$854.4	12	\$86.92	44
Hawaii	17.000	44	\$86.4	48	\$66.69	46
Idaho	26.000	14	\$230.4	39	\$149.03	17
Illinois	20.100	31	\$1,339.2	7	\$103.73	41
Indiana	18.000	39	\$760.0	16	\$118.32	32
Iowa	22.000	26	\$437.8	29	\$145.54	18
Kansas	24.000	21	\$424.7	31	\$150.67	15
Kentucky	25.900	15	\$655.2	19	\$151.88	14
Louisiana	20.000	32	\$588.0	22	\$130.90	22
Maine	29.500	10	\$241.7	38	\$183.33	4
Maryland	23.500	23	\$722.6	17	\$126.78	24
Massachusetts	21.000	30	\$654.6	20	\$99.29	42
Michigan	19.000	35	\$988.1	9	\$99.11	43
Minnesota	29.600	9	\$832.3	13	\$158.04	12
Mississippi	18.400	38	\$393.4	33	\$133.25	20
Missouri	17.300	43	\$721.9	18	\$120.57	29
Montana	27.000	13	\$204.4	41	\$209.63	3
Nebraska	27.300	12	\$298.8	36	\$166.32	7
Nevada	24.805	19	\$292.8	37	\$110.78	39
New Hampshire	19.625	34	\$147.8	43	\$111.59	38
New Jersey	14.500	48	\$535.3	24	\$61.47	47
New Mexico	18.875	37	\$227.6	40	\$113.27	36
New York	25.000	16	\$509.7	26	\$26.08	50
North Carolina	32.750	5	\$1,551.7	6	\$165.41	8
North Dakota	23.000	24	\$151.1	42	\$233.52	1
Ohio	28.000	11	\$1,727.2	5	\$149.64	16
Oklahoma	17.000	44	\$431.2	30	\$116.94	34
Oregon	30.000	8	\$403.3	32	\$105.42	40
Pennsylvania	31.200	7	\$2,020.1	4	\$160.26	10
Rhode Island	33.000	3	\$123.8	45	\$117.55	33
South Carolina	16.750	46	\$521.2	25	\$114.27	35
South Dakota	24.000	21	\$125.2	44	\$154.14	13
Tennessee	21.400	29	\$824.8	14	\$131.00	21
Texas	20.000	32	\$3,043.5	2	\$122.81	26
Utah	24.500	20	\$351.4	35	\$126.21	25
Vermont	24.980	18	\$99.3	47	\$159.67	11
Virginia	17.500	42	\$882.9	11	\$112.01	37
Washington	37.500	1	\$1,196.7	8	\$179.57	5
West Virginia	32.200	6	\$392.0	34	\$215.41	2
Wisconsin	32.900	4	\$973.0	10	\$172.06	6
Wyoming	14.000	49	\$25.6	49	\$47.07	48
United States			\$35,480.2			
* Includes additional fees (such as Illinois' environmental fee and LUST fee of 1.1-cents per gallon) but does not include the sales tax portion.						
Source: Tax rates come from www.taxadmin.org; Tax collections come from www.census.gov/govs/statetax/						

In terms of total tax revenue collected from the motor fuel tax, interesting results were found. As summarized in the table on the previous page, the Census Bureau recently reported the amount of motor fuel tax collections in 2010 (www.census.gov/govs/statetax). These results show that Illinois had the 7th highest amount of motor fuel tax revenue collected in the nation. However, this ranking is not surprising considering Illinois has the 5th highest population in the State.

To put things in perspective, accounting for population, Illinois had only the 41st highest rate of motor fuel tax collections on a per-capita basis at a rate of \$103 per capita. All states neighboring Illinois (except Michigan at \$99) had higher per-capita rates than Illinois (Indiana \$118; Iowa \$146; Kentucky \$152; Missouri \$121; and Wisconsin (\$172).

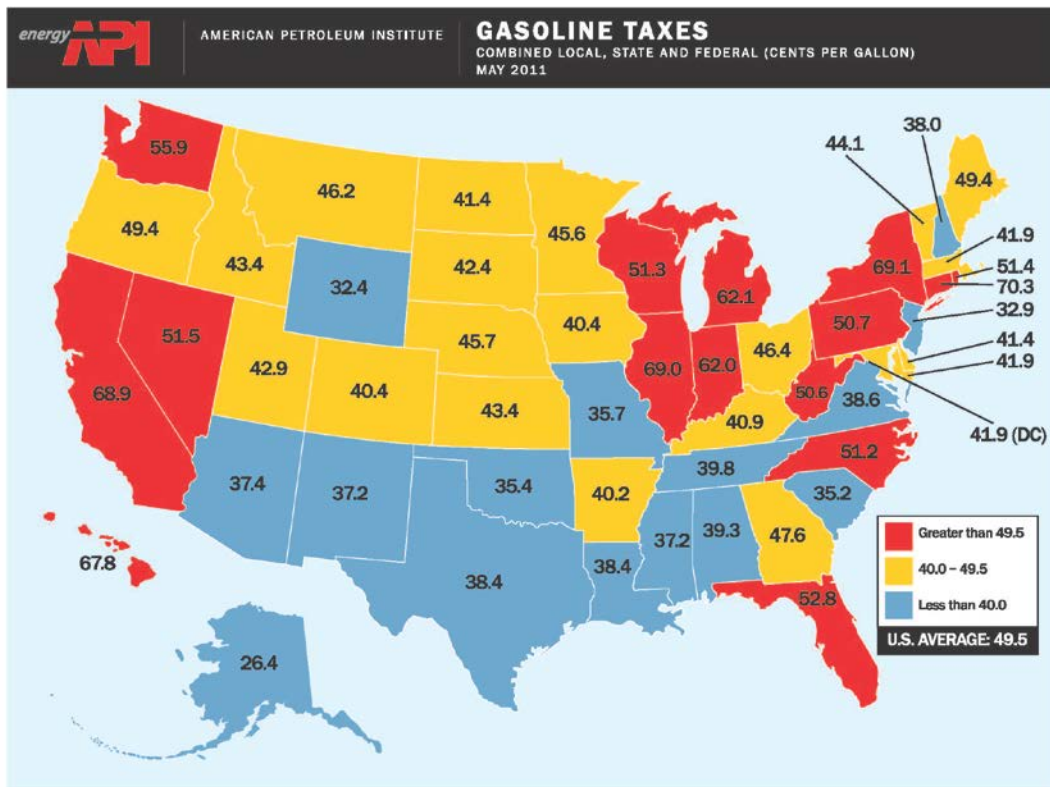
While Illinois' low per-capita rating may appear favorable to the Illinois tax payer, a closer look shows that this ranking could be a bit misleading. States with cities that have a high dependence on public transportation, such as New York, California, New Jersey, and Illinois, were all in the lower portions of the rankings. Those with prevalent public transportation, such as trains and subways, would mean a significant portion of their population is not contributing to motor fuel tax coffers (by driving and paying for their own gasoline) as much as other states. Because of this, these "public transportation" states tend to have lower per-capita value, thus, distorting the values.

Illinois' relatively low rankings in the previous categories may also be misleading because the revenue totals from motor fuel used in the comparison do not include revenues from the State sales tax. The ideal comparison would be to include sales tax revenues from motor fuel with the motor fuel tax revenues and then compare them. But again, because there is not an available method of distinguishing motor fuel sales from all other ancillary sales at filling stations, it is difficult to accurately report the amount of sales tax revenue collected from motor fuel.

If Illinois added its FY 2010 estimated sales tax revenue from motor fuel amount of \$578 million to the 2010 motor fuel tax total reported by the census bureau, its per-capita value would rise from \$104 to \$149 per capita. The per-capita ranking would rise from 41st to 18th. And this higher ranking could be seen as artificially high since many in the metropolitan area of Chicago use public transportation and do not purchase relatively similar amounts of motor fuel as other states.

In an effort to compare the overall tax totals applied to motor fuel, including all federal, state, and local taxes (including sales taxes), the American Petroleum Institute periodically releases a point-in-time review of overall taxes by state. It is considered a "point-in-time" comparison, because tax rates can change for states like Illinois that impose a sales tax on motor fuel. This comparison can be found at www.api.org.

In their latest release (May 2011), as shown below, the Institute shows Illinois having the 3rd highest gasoline tax total in the nation at \$0.69 per gallon. Only Connecticut (\$0.703) and New York (\$0.691) had higher rates. Neighboring states Indiana (\$0.62) and Michigan (\$0.621) were close behind Illinois. Not surprisingly, all of these states listed above impose some sort of sales tax on motor fuel in addition to their standard motor fuel tax. Other states neighboring Illinois were notably lower than Illinois. This includes Wisconsin (\$0.513), Iowa (\$0.404), and Missouri (\$0.357).



It should be noted that Illinois' high ranking does include local taxes, which are a significant addition to the price of motor fuel, especially in the Chicago metropolitan area where local taxes are higher. So while this higher ranking depiction may be accurate for this portion of the state, to other areas of Illinois where additional local taxes are not as pronounced, these higher values may be overstated.

As shown in these different methods of comparison, when looking at the motor tax on its own, Illinois is in the "middle of the pack" when taxing motor fuel and would not be considered a high-taxing state. However, once the sales tax is applied to the cost of motor fuel (especially at higher prices), Illinois quickly becomes one of the higher taxing states. And when the local motor fuel taxes and local sales taxes are included in these prices, reports calling Illinois one of the highest motor fuel taxing states in the nation cannot be disputed.

House Resolution 0328

House Resolution 0328 directed the Commission to “conduct an objective, non-political examination of our policy of charging ‘ad valorem’ Illinois sales taxes on motor fuel”. As instructed, it is not the intent of the Commission to decide whether taxing motor fuel, especially as it relates to the sales tax, is ‘good public policy’. It is the intention, however, to lay out the facts and figures surrounding the taxation of motor fuel and offer up topics that must be considered by lawmakers when making future policy decisions relating to this issue.

The following is a summary of the issues that should be considered:

- When including all taxes on motor fuel, Illinois is one of the highest taxing states in the country. A May 2011 study by the American Petroleum Institute (API) labeled Illinois as the 3rd highest taxing state in the nation once all motor fuel related taxes were included.
- Being a high taxing state can be detrimental to Illinois fueling station businesses, especially in locations bordering lower taxing locations where travelers have choices in where to purchase their fuel. Not only does this impact the fueling station, but also the businesses surrounding the station that rely on travelers to make a convenient stop “next door” to get a bite to eat or do some shopping.
- Illinois’ saving grace may be the fact that many of the neighboring states have similarly high rates. The recent API study showed Illinois having a combined tax rate of \$0.69 per gallon. Indiana, which may be Illinois’ biggest competitor for motor fuel sales - especially as it pertains to truck drivers deciding where to fill-up in their travel through the Midwest -, had a combined tax rate of \$0.62 per gallon. Michigan (\$0.621 per gallon) and Wisconsin (\$0.513 per gallon) also had “high” combined rates compared to the rest of the country. *Note: These combined tax rates are lower in areas that do not have local motor fuel and sales taxes added to the price of fuel.*
- The difference in combined motor fuel tax rates may be the most notable in western and southern portions of Illinois. Missouri has a combined motor fuel tax rate of \$0.357, which is significantly lower than Illinois. Kentucky (\$0.409 per gallon) and Iowa (\$0.404) also have competitively lower combined tax rates.
- Because the sales tax on motor fuel is determined as a percentage of the price of fuel, as the cost of motor fuel goes up, so will the amount of taxes charged to drivers in Illinois. This means that the differential in combined tax rates between Illinois and states with no sales tax will continue to increase as the price of fuel increases. Since Indiana and Michigan also impose a sales tax on motor fuel in the Midwest region, Illinois’ differentials with these states will likely stay similar unless tax changes affecting these states are made.

- The State's basic sales tax rate is imposed on the price of fuel after all federal taxes but before state motor fuel taxes and environmental fees are included. This means that Illinois imposes a "tax on a tax" (6.25% sales tax on the federal motor fuel tax rate of \$0.184 per gallon). This equates to a "tax on a tax" value of approximately one-cent per gallon. With approximately 6-billion gallons of motor fuel taxed in the State per year, this equates to an estimated \$60 million in annual tax revenues from this "tax on a tax" occurrence.
- Few would argue that Illinois is not a high motor fuel-taxing state. While this can leave a negative connotation in many people's eyes, the fact remains that significant amounts of revenues are collected from the various fuel-related taxes each year. Nearly \$1.4 billion is annually collected from the State's motor fuel taxes and fees. The Commission estimates that the sales tax could generate an additional \$756 million for the State in FY 2012. And these amounts do not include the various local tax revenues collected from motor fuel throughout the State.
- A state government response of cutting taxes during times of high fuel prices is not new to Illinois. In the Summer of 2000, to assist Illinois motorists with "higher gas prices" at that time, the State suspended the 5% State portion of the sales tax applied to motor fuel and gasohol, for the period July 1, 2000, through December 31, 2000. The Commission estimated that the suspension of sales tax on motor fuel cost the State approximately \$157 million. However, at today's prices, the cost to the State for a similar six-month suspension could near \$400 million. (While it could be argued that this \$400 million consumer savings could be spent on other taxable goods in Illinois, applying the State's 6.25% to the \$400 million savings would only offset \$25 million of this "lost" revenue).
- While any reduction/elimination of motor fuel taxes would be welcoming to businesses and consumers, this would create a significant dent in State and local government coffers throughout Illinois. Without these taxes, replacement revenues would have to be found or equitable spending cuts would need to follow.
- The differential between Illinois motor fuel prices and that of other states becomes an issue when travelers or businesses change their normal routines to make purchases in these neighboring states instead of Illinois. While this occurrence may be happening more frequently with the recent higher motor fuel prices, there has yet to be a significant falloff in overall taxable motor fuel gallonage figures or motor fuel tax revenues. Although figures show that taxable motor fuel gallons have declined 5.3% since its highpoint in 2004, a significant portion of this may be due to better gas efficiency of the vehicles of Illinois drivers rather than people buying their fuel elsewhere.
- The lack of significant falloffs in motor fuel gallonage figures would suggest that a change to purchase motor fuel at out-of-state locations has yet to occur.

At this point, it appears that local convenience and familiarity have outweighed motor fuel savings. However, as prices continue to climb, the likelihood will continue to increase that Illinois drivers will change their driving and spending habits to potentially save money at out-of-state locations.

- HR 0328 indicates the desire of State officials to lower motor fuel prices in Illinois. However, since State and local taxes generally make up only 10% to 15% of the retail price of motor fuel, Illinois legislators are limited to what immediate impact that they can have on overall prices. For there to be a significant reduction in motor fuel prices, policy changes that alter the price of crude oil would need to be made, which in reality, would have to come from the federal level.
- As suggested through House Resolution 0328, below are portions of the recommendations to federal officials as to how to reduce price pressure on motor fuel in Illinois:
 - *Cooperate on new policies to increase motor fuel supplies in Illinois, reduce pressure on Illinois motor fuel prices, and inform the Illinois public of the steps being taken to reduce price pressure on motor fuel;*
 - *Release part of the U.S. Strategic Petroleum Reserve for summer 2011 refinery throughput and consumer end-use;*
 - *Suspend implementation of all federal Clean Air Act non-attainment rules that affect the chemical composition and market price of motor fuel sold in the Chicago, Illinois and St. Louis, Missouri metropolitan areas;*
 - *Call upon United States oil refiners to continue their work to rebuild their refineries to refine bitumen-based crude oil into consumer petroleum products and commend the example provided by Canada to those United States policymakers who have the power to decide upon policies that govern the drilling, exploitation, and enjoyment of crude oil resources here in the United States.*
 - *Other recommendations (not included in the resolution) include having fewer restrictions on exploration and drilling in the U.S. and ending the moratorium on off-shore drilling.*

STATE OF ILLINOIS
HOUSE OF REPRESENTATIVES
97TH GENERAL ASSEMBLY

HOUSE RESOLUTION NO. 328

**OFFERED BY REPRESENTATIVES RICHARD MORTHLAND-ADAM BROWN-WAYNE
ROSENTHAL-PAM ROTH-CHAD HAYS, BILL MITCHELL, DWIGHT KAY, JOHN D.
CAVALETTO AND RICH BRAUER**

WHEREAS, In the spring of 2011, the retail prices of motor fuels in Illinois have touched or hit record levels; and

WHEREAS, On May 4, 2011, the average sales price of gasoline-based motor fuel in Illinois was \$4.31 per gallon; and

WHEREAS, These retail prices include the substantial burden of motor fuel excise taxes, State sales taxes, local sales taxes, and environmental remediation taxes, which have been added to the underlying burden of worldwide crude oil prices; and

WHEREAS, The current price of crude oil is in excess of \$110 per 42-gallon barrel, driven upward by political upheavals in the Middle East and adjacent regions of the Eastern Hemisphere; and

WHEREAS, The high price of motor fuels threatens prospects for Illinois employment and economic recovery by diverting consumer spending from discretionary purchases to motor fuel; demand for motor fuel is highly price-inelastic, as once people take up residence in a house, they are tied in to a pattern of driving to and from the places where they work, shop, and visit their relatives and friends, and cannot easily change their patterns; therefore, be it

RESOLVED, BY THE HOUSE OF REPRESENTATIVES OF THE NINETY-SEVENTH GENERAL ASSEMBLY OF THE STATE OF ILLINOIS, that we urge Governor Pat Quinn to take action immediately to comprehensively lower the price of motor fuel in all geographic regions of Illinois on a time frame adequate to prevent Illinois falling into renewed recessionary conditions; and be it further

RESOLVED, That we urge Governor Quinn and President Barack Obama to take immediate steps to reverse their current policies regarding the price of motor fuel and to cooperate on new policies to increase motor fuel supplies in Illinois, reduce pressure on Illinois motor fuel prices, and inform the Illinois public of the steps being taken to reduce price pressure on motor fuel; and be it further

RESOLVED, That, based upon the current political upheavals in the Middle East, consequent disruptions to the world supply of crude oil, and negative consequences of these disruptions to the fragile U.S. economic recovery, we urge President Obama and the United States Department of Energy to release part of the U.S. Strategic Petroleum Reserve for summer 2011 refinery throughput and consumer end-use; and be it further

RESOLVED, That, based upon the current record or near-record price of motor fuel in Illinois, we urge the President of the United States and the Administrator of the United States Environmental Protection Agency to suspend implementation of all federal Clean Air Act non-attainment rules that affect the

chemical composition and market price of motor fuel sold in the Chicago, Illinois and St. Louis, Missouri metropolitan areas; and be it further


RESOLVED, That we commend our neighbor country, the nation of Canada, for its aggressive work in expanding crude oil production from one of the largest under-utilized sources of fossil fuels in the world, the oil sands deposits of the province of Alberta, which possess estimated reserves of 1.7 trillion barrels of bitumen, from which crude oil can be manufactured; and be it further

RESOLVED, That we call upon United States oil refiners to continue their work to rebuild their refineries to refine bitumen-based crude oil into consumer petroleum products and commend the example provided by Canada to those United States policymakers who have the power to decide upon policies that govern the drilling, exploitation, and enjoyment of crude oil resources here in the United States; and be it further

RESOLVED, That we direct the Illinois Commission on Government Forecasting and Accountability to conduct an objective, non-political examination of our policy of charging "ad valorem" Illinois sales taxes on motor fuel, thereby raising these prices well above world spot market prices for gasoline, and to report its findings to the Speaker of the Illinois House of Representatives, the Illinois House Republican Leader, the President of the Illinois Senate, and the Illinois Senate Republican Leader, and for this study to be concluded and the report transferred no later than September 30, 2011; and be it further

RESOLVED, That suitable copies of this resolution be presented to the President of the United States, the Secretary of the United States Department of Energy, the Administrator of the United States Environmental Protection Agency, the Governor of Illinois, and the executive director of the Illinois Commission on Government Forecasting and Accountability.

Adopted by the House of Representatives on May 19, 2011.


MARK MAHONEY
CLERK OF THE HOUSE




MICHAEL J. MADIGAN
SPEAKER OF THE HOUSE

BACKGROUND

The Commission on Government Forecasting and Accountability (CGFA), a bipartisan, joint legislative commission, provides the General Assembly with information relevant to the Illinois economy, taxes and other sources of revenue and debt obligations of the State. The Commission's specific responsibilities include:

- 1) Preparation of annual revenue estimates with periodic updates;
- 2) Analysis of the fiscal impact of revenue bills;
- 3) Preparation of State debt impact notes on legislation which would appropriate bond funds or increase bond authorization;
- 4) Periodic assessment of capital facility plans;
- 5) Annual estimates of public pension funding requirements and preparation of pension impact notes;
- 6) Annual estimates of the liabilities of the State's group health insurance program and approval of contract renewals promulgated by the Department of Central Management Services;
- 7) Administration of the State Facility Closure Act.

The Commission also has a mandate to report to the General Assembly ". . . on economic trends in relation to long-range planning and budgeting; and to study and make such recommendations as it deems appropriate on local and regional economic and fiscal policies and on federal fiscal policy as it may affect Illinois. . . ." This results in several reports on various economic issues throughout the year.

The Commission publishes several reports each year. In addition to a "Monthly Briefing", the Commission publishes the "Revenue Estimate and Economic Outlook" which describes and projects economic conditions and their impact on State revenues. The "Legislative Capital Plan Analysis" examines the State's capital appropriations plan and debt position. "The Financial Conditions of the Illinois Public Retirement Systems" provides an overview of the funding condition of the State's retirement systems. Also published are an Annual Fiscal Year "Budget Summary"; "Report on the Liabilities of the State Employees' Group Insurance Program"; and "Report of the Cost and Savings of the State Employees' Early Retirement Incentive Program". The Commission also publishes each year special topic reports that have or could have an impact on the economic well being of Illinois. All reports are available on the Commission's website.

These reports are available from:

Commission on Government Forecasting and Accountability
703 Stratton Office Building
Springfield, Illinois 62706
(217) 782-5320
(217) 782-3513 (FAX)

<http://www.ilga.gov/commission/cgfa2006/home.aspx>