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**MOTOR FUEL: 2005 EDITION**

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EXECUTIVE SUMMARY

Over the last several months, the price of motor fuel has reached unprecedented levels. On September 5, 2005, Illinois’ average price for a gallon of regular unleaded reached a record high of $3.19, according to the AAA Motor Club. Nationwide, current average gasoline prices are up 62 percent in comparison to prices at this time a year ago. Prices for crude oil are also up sharply and have approached record highs near $70 a barrel. There is now fear that the recent tragedies associated with Hurricane Katrina could cause the price to increase even further.

In our fast-paced society, transportation has become a crucial part of our world. Affordable levels of motor fuel allow the world of transportation to be an independent and personalized entity. 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 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 record high prices in 2005. Also provided is a detailed analysis on revenues from motor fuels and estimates of the additional amount of sales tax revenue that has been generated for the State of Illinois as a result of these higher motor fuel prices. The report then takes a look back at the six-month sales tax suspension on motor fuel in 2000 and summarizes the impact that this tax suspension had on Illinois. Finally, a detailed description of the taxes that are included in the price of motor fuel is provided, as are comparisons with other states in the taxation of this energy source. Highlights of the report are summarized below.

- 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 (EIA), in July 2005, refining costs and profits made up approximately 18% of the retail price of gasoline. Distribution and marketing made up approximately 8%, while the actual price of crude oil made up a little over 55%. The remaining 19% is comprised of taxes.

- 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 high prices of 2005 in the U.S. include the growth in worldwide demand for petroleum, low worldwide spare production capacity, geo-political uncertainties in Iraq, Venezuela, and Nigeria, and production problems associated with Hurricane Katrina.
• According to the Energy Information Administration, the U.S. average for regular gasoline on September 5, 2005 was $3.07, which was just a nickel shy of the inflation-adjusted record of $3.12 averaged during the gas crisis of the early 1980s and was by far the highest price ever if not adjusted for inflation.

• 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).

• A total of 6.3 billion gallons of motor fuel were reported by the Department of Revenue to be used in Illinois in FY 2005. This included 1.1 billion gallons of gasoline, 4.1 billion gallons of gasohol, and 1.1 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 5.2 cents per gallon. In FY 2005, at an average price of $1.97 per gallon, the applicable State sales tax per gallon was approximately 8.2 cents per gallon. At the retail price of $2.72 per gallon (current price as of 8/31/05), the State sales tax per gallon is approximately 11.7 cents.

• The Commission estimates that approximately $439 million in sales tax revenue was generated from motor fuel in FY 2005, which was approximately $80 million higher than what was collected in FY 2004. If prices in FY 2006 remained at the current level of $2.72, approximately $615 million in motor fuel related sales tax revenue would be generated, an increase of $175 million over FY 2005. **However, revenue increases from sales taxes on motor fuel do not necessarily equate 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.**

• In FY 2005, Illinois generated $6.595 billion from the State sales tax. Therefore, the FY 2005 estimated amount of $439 million in sales tax revenue from motor fuel made up approximately 6.7% of all State sales tax revenue in FY 2005.

• The high gasoline prices of 2005 have forced states throughout the country to look for ways of cutting the motor fuel prices. In early September 2005, Georgia legislators suspended the 7.5 cents-a-gallon gas tax and 4 percent sales tax on gasoline until October 1st. State lawmakers in other states, including Oklahoma, Massachusetts, Connecticut and Pennsylvania, have either proposed or are considering similar measures.

• Between the period July 2000 thru December 2000, Illinois suspended the State sales tax on motor fuel. The Commission estimated that approximately $157 million in State sales tax revenue from motor fuel were lost due to this tax suspension. The average retail price during this time period (FY 2001) was $1.56 per gallon.
• In FY 2005, $1.465 billion in State motor fuel taxes were collected in Illinois, which was a 0.8% increase over FY 2004. Revenues from the State Motor Fuel Tax are distributed to several different areas, with the majority of the funds apportioned to municipalities, counties, townships, and road districts in the State of Illinois.

• Illinois ranked 31st in the nation in the category of State tax rates on gasoline in 2004. Illinois ranked 6th in the nation in the amount of State revenue collected for the Motor Fuel Sales Tax in 2003, but ranked only 38th in the nation when the revenue was on a per capita basis.
From the Well to the Pump

Over the last few weeks, the price of gasoline has approached and reached record levels. This has created a dramatic increase in the number of motor fuel related stories in the press. Most of the stories contain comments from frustrated drivers who are angry at the dramatic jump in price. While the retail cost of gasoline is advertised for every motorist to see, few people would be able to explain how the retail price was arrived at or what factors contributed to that final price determination.

In order to understand how motor fuel prices are formulated and the causes for why these prices fluctuate as much as they do, a basic knowledge of the oil production cycle process is needed. 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. It can be found both on land and offshore. 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. Pipelines allow for the movement of large quantities of crude oil to major marketplaces throughout the country with little or no disruption to communities anywhere. According to the American Petroleum Institute, there are approximately 55,000 mile of crude oil trunk lines in the United States that connect regional markets. In addition, the U.S. has an estimated 30,000 to 40,000 miles of small gathering lines, which gather the oil from many wells, both offshore and onshore, and connect to larger trunk lines. A map of selected U.S. crude oil trunkline systems is provided on page 2.

Pipeline companies do not usually own the products they are transporting, but rather, are simply intermediaries that move the product from the producers and shippers, those who actually own the product, to the marketplace. Producers and shippers pay pipeline companies to transport their product from oil fields to refineries, manufacturers, and distribution centers. In order to move their product, shippers have to reserve a specific amount of space per month on the pipeline to transport their products. According to www.pipeline101.com, as a common carrier engaged in interstate commerce, the Federal Energy Regulatory Commission regulates the fees charged by liquid petroleum pipelines for the use of their product. In addition, some states also regulate the rates charged for pipelines that only transport within the state, or intrastate pipelines.
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. Because gasoline companies share the same pipelines, a disruption in a pipeline does not affect the retail price of just one gasoline retailer, but, rather, all gasoline companies receiving crude oil through that pipeline.

**CHART 1**

The cost of transporting the crude oil 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 have the desirable characteristics necessary for good engine performance.

Throughout the country, environmental programs have prompted refiners to reduce carbon monoxide, smog, and air toxics and led to the creation of the Federal and/or State-required oxygenated, reformulated, and low-volatility (evaporates more slowly) gasolines. Other environmental programs put restrictions on transportation and storage. The reformulated gasolines required in some urban areas and in states, such as California, cost more to produce than conventional gasoline served elsewhere, increasing the price paid at the pump. The EIA reports that nineteen states have passed legislation to restrict the use of the gasoline additive MTBE, but of these, only California, Connecticut, Kentucky, Missouri, and New York relied on the additive to begin with. The removal of MTBE requires large changes to gasoline production and distribution and sometimes causes temporary supply dislocations and price volatility.

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 5,349-mile Colonial pipeline system between New York and Houston carries approximately 80 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 July 2005, refining costs generally made up approximately 18% of the price of a gallon of regular gasoline. Approximately 8% comes from distribution and marketing costs, while 55% of the cost comes from crude oil. (Due to current prices hovering around $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 19%, stems from taxes.

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 at the end of 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. 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 for higher graded gasoline, 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. For example, retailers may want their profit margin to be 10 cents per gallon. If a competitor down the road is selling gasoline at a cheaper price, they may have to sacrifice their targeted profit margin ratio, in order to get the business of the motorists. This competition causes fluctuations in the spread that causes its value to be very inconsistent. In a 2001 survey conducted by the Commission, 58% of the respondents indicated that competition with retailers affects the pump price the most.

An example of this was seen in the Springfield area shortly after the elimination of the motor fuel sales tax in 2000. As supplies were replenished, prices that were near $2.00 per gallon, dropped to more normal levels near the middle of July 2000 throughout Illinois. In Springfield, the prices dropped to as low as $1.11 a gallon for regular unleaded. The reason: a new superstore opened up on the south side of town along with a related gas station. To bring people to the superstore, fuel was sold well below the average selling price at that time. This, in essence, caused a gasoline price war, sending prices that were once among the highest in the country to one of the lowest.

The superstore could afford to sell gasoline at prices that brought in little to no profit because they had other merchandise to sell to make up for their loss. Other gasoline stations did not have this luxury. Therefore, they had to take a hit to remain competitive. This is how margins at certain times can reach a point where zero or negative profit is made. As the superstore’s prices increased to “normal” levels, the competitors quickly followed suit, in order to regain the profit margin they needed. It is at this point that many retailers may exceed their normal profit margin levels in order to gain back some of the profit that was lost during a price war.

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. For a detailed examination of profit margins and its relationship to rack prices, please see the Commission’s report to the Joint Committee on Legislative Support Services entitled, “Suspension of Motor Fuel Sales Tax”, which can be accessed from the Commission on Government Forecasting and Accountability’s website: http://www.ilga.gov/commission/cgfa/cgfa_home.html.
Another factor that may influence the price margin is the amount of fuel remaining in the retailer’s tank at the time of a price increase. For example, let’s say that a retailer has to pay a high price to fill his storage tanks. If the rack price of gasoline drops twenty cents the next day, the retailer is stuck with more expensive gasoline in his tanks. In order to pay for this gas, he has to charge the consumer the price that he paid for the fuel that he has in his storage tanks, not the current price of gasoline. This could be another reason for the appearance that profit margins tend to grow as the rack prices decrease.

Much of this price change is also dependent on the size of the storage tanks and how often they are filled. If retailers have tanks that are relatively small and they have good business, they may have their tanks refilled frequently and be able to change prices relative to the market value. But if stations have large tanks with little turnover, they may only be able to charge what the gasoline in their tank is worth. The problem for these retailers is that they may have paid for gasoline at a high rate, but may have to lower prices to stay competitive. The luxury they have is if they paid for gasoline at a lower rate, they would have the ability to charge the current higher price to make back some profit, or charge the gasoline purchase price, which could cause the competitors to lower their prices.
World Rankings

The production and use of gasoline is realized throughout the world. Below is a table of the top countries in the areas of oil production, oil exports, oil imports, and oil reserves, as reported by the U.S. Energy Information Administration. Interestingly, the United States is by far the largest oil consumer and the largest oil importer in the world. However, while the U.S. is the third largest producer of oil in the world (following only Saudi Arabia and Russia), it does not rank as one of the top countries in the area of oil exports or oil reserves.

Table 1: Top World Oil Producers, Exporters, Consumers, Importers, and Oil Reserves

(millions of barrels per day, unless noted)

<table>
<thead>
<tr>
<th>Producers</th>
<th>Total oil production</th>
<th>Exporters</th>
<th>Net oil exports</th>
<th>Consumers</th>
<th>Total oil consumption</th>
<th>Importers</th>
<th>Net oil imports</th>
<th>Oil Reserves</th>
<th>Proved Reserves (billion barrels)</th>
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<tr>
<td>2. Russia</td>
<td>9.27</td>
<td>2. Russia</td>
<td>6.67</td>
<td>2. China</td>
<td>6.5</td>
<td>2. Japan</td>
<td>5.3</td>
<td>2. Canada</td>
<td>178.8</td>
</tr>
<tr>
<td>13. United Kingdom</td>
<td>2.08</td>
<td>13. Kazakhs tan</td>
<td>1.06</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14. Iraq</td>
<td>2.03</td>
<td>14. Qatar</td>
<td>1.02</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

1. Table includes all countries with total oil production exceeding 2 million barrels per day in 2004. Includes crude oil, natural gas liquids, condensate, refinery gain, and other liquids.
2. Includes all countries with net exports exceeding 1 million barrels per day in 2004.
3. Includes all countries that consumed more than 2 million barrels per day in 2004.
4. Includes all countries that imported more than 1 million barrels per day in 2004.
5. Proved reserves (2005) are estimated with reasonable certainty to be recoverable with present technology and prices.

What Are the Causes of the Large Price Increases in Gasoline during 2005?

Nationwide, current average gasoline prices are up 62 percent in comparison to prices at this time a year ago as oil prices have reached record highs. Crude prices hit a high of $70.85 on August 30, 2005 and continue to hover near $65 a barrel. Even previous to the disasters associated with Hurricane Katrina, motor fuel prices were on the way up. So, what has caused these motor fuel prices to fluctuate?

Even in years when crude oil prices are stable, gasoline prices have a tendency to fluctuate due to factors such as retail competition and seasonality. Often, motor fuel prices will rise before and during the summer as people drive more and the demand for fuel grows. The Energy Information Administration (EIA) states that if crude oil prices remain unchanged, gasoline prices would typically increase by 10 to 15 cents from January to the summer.

As with any product, an increase in demand for motor fuel causes prices to increase. If demand rises quickly and supplies become unexpectedly low due to factors, such as refinery production problems, wholesalers are forced to bid higher for the available product. As a result, the higher prices wholesalers pay is then passed along from the retailer to the consumer.

There are several other factors that could cause the cost of motor fuel to rise. These include the proximity of the fuel supply, supply disruptions, transportation problems, operating costs, and environmental programs. These are the factors that generally cause gas prices to rise in the United States on a year-to-year basis. However, according to the EIA, there are specific factors that have influenced the large price increases in 2005.

The first factor is, the worldwide demand for petroleum continues to grow. The OPEC Annual Statistical Bulletin 2004 states that approximately 78 billion barrels of oil are consumed worldwide each day. However, the EIA reports that worldwide oil demand growth is expected to average about 1.8 million barrels per day between 2004 and 2006. Much of this growth comes from high-populated countries like China whose demand for crude oil has increased dramatically over the last several years.

A second factor is due to the belief that production growth in countries outside of the Organization of Petroleum Exporting Countries (OPEC) will not be able to accommodate incremental worldwide demand growth. In addition, worldwide spare production capacity is reportedly at its lowest level in three decades, according to the EIA. They state that only Saudi Arabia has any spare crude oil production capacity available, but they would need to “steeply discount their heavy oil in order to market it effectively.” The EIA adds, “Despite projected capacity additions in Saudi Arabia and other Persian Gulf countries in 2005 and 2006, world spare capacity will remain low if world oil demand continues to grow as projected.”

Another reason for the continued high prices is due to the many geo-political uncertainties that are occurring throughout the world. For example, the continued volatility in Iraq and the possibility of problems in Venezuela have caused levels of uncertainty to remain high, which has a corresponding effect on world oil market prices.
In Nigeria, further potential supply disruption could come as the main workers' union in that country threatened a strike, saying proposed fuel price hikes by the government of the world's eighth-biggest crude exporter were unacceptable. These cost factors will continue to affect prices until these world situations stabilize.

While these factors have significantly affected the price of motor fuel in recent months, the factor that may have the biggest effect on U.S. gasoline prices in the immediate future is the lingering effects of Hurricane Katrina. When Katrina hit, it forced operators to close more than a tenth of the country's refining capacity and a quarter of its oil production. In addition, two major pipelines that supply gasoline to key terminals and distribution centers within the eastern U.S. were shut down due to power outages caused by the storm. According to the EIA, “All of this added up to a dramatic drop in the supply of gasoline at a time when demand typically peaks, as well as having the distribution system dramatically affected. The result was very high prices…”

Due to the supply problems associated with Hurricane Katrina, some motorists even found themselves doing what they had not done since the late 1970s or early 1980s: waiting in long lines to fill up their automobile. Many have wondered how the current gas “crisis” compares to the high gas prices of the early 1980s. The EIA states that, “the U.S. average for regular gasoline rose 46 cents from the previous week to $3.07 per gallon on Labor Day, September 5, just a nickel shy of the inflation-adjusted record of $3.12 averaged over March 1981, and by far the highest price ever if not adjusted for inflation.” The chart below displays how the price of motor fuel has increased over the years, both on a nominal price basis and on an inflation-adjusted real price basis. (Note: The graph displays year averages. Therefore, the record daily prices previously mentioned are not correspondingly reflected).

CHART 2:

![Real Gasoline Pump Price: Annual Average 1919-2006](http://www.eia.doc.gov/emeu/steo/pub/fsheets/PetroleumPrices_files/v3_document.html)

Even days and weeks after the storm, the EIA believes that retail prices are likely to remain very high for some time to come, with as much as 5% of refinery capacity paralyzed for a few months. In addition, while crude oil production from the hard-hit areas of the Gulf of Mexico has improved, the EIA believes that it may be some time before production is back to pre-hurricane levels. On the other hand, the EIA reports that
there are some indications that retail gasoline may have peaked or will peak very soon. In the September 8, 2005 edition of “This Week in Petroleum”, the EIA wrote the following:

While gasoline imports were down during the week ending September 2, this is expected to change over the next couple of weeks... (as) there are reports that gasoline shipments are on their way and should begin arriving possibly as early as late this week. Also, an announcement by the International Energy Agency (IEA) that over 30 million barrels of relief was coming from IEA countries outside the United States, some in the form of gasoline volumes drawn from their government-owned and controlled stockpiles, should also aid in adding supply and putting immediate downward pressure on prices. The sale of up to 30 million barrels of crude oil from the U.S. Strategic Petroleum Reserve, in addition to the 12.6 million barrels of crude loaned to refiners earlier to meet more immediate concerns, should also alleviate any concerns refiners might have in terms of crude oil supply over the next several weeks. News that the Plantation and Colonial pipelines are back at full capacity, along with news that some refineries are returning to full capacity this week, should also help supply issues and lower prices... (The) EIA expects prices to be lower by the end of September than they are now, and they should continue to fall throughout most of the next couple of months, absent any disruptions to supply from other hurricane activity or other factors.
Sales Tax Revenue from Motor Fuel

Because of the attention that the recent high motor fuel prices have received, the Commission has received numerous requests for information relating to Illinois’ taxing structure. Specifically, most requests are for the amount of sales tax revenue that has been generated from motor fuel sales and the revenue increase that has and will occur because of these higher prices. Because the State motor fuel tax is a flat per gallon rate, revenue from the motor fuel tax is not affected by fluctuations in the base price of motor fuel (unless consumption levels change). On the other hand, revenue from the State sales tax is directly affected by fluctuations in motor fuel prices.

In response, the Commission has formulated a fact sheet (Table 2, shown on page 11), which provides a history of motor fuel prices in Illinois and the estimated amount of State sales tax revenue that has been generated over the last five years, as well as the amount of revenue anticipated if prices stayed at current levels for the remainder of the fiscal year. Highlights of the fact sheet are provided on the following pages.

As shown in Table 2, 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 detailed look at the various motor fuel taxes is included later in the report.

In computing the amount of sales tax revenue generated from motor fuel, the base upon which the sales tax is applied must be calculated, and then multiplied by the total amount of gallons for that particular year. As shown in Table 2, a total of 6.3 billion gallons of motor fuel were reported by the Department of Revenue to be used in Illinois in FY 2005. This included 1.1 billion gallons of gasoline, 4.1 billion gallons of gasohol, and 1.1 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. A four-year history of motor fuel gallonage is displayed above in Chart 3.
### TABLE 2: Motor Fuel Price Factsheet

#### Estimated Amount of State Sales Tax Revenue from Unleaded Gasoline/Gasohol

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<tbody>
<tr>
<td>Average Price*</td>
<td>$1.56</td>
<td>$1.34</td>
<td>$1.49</td>
<td>$1.66</td>
</tr>
<tr>
<td>Removing State Motor Fuel and other motor fuel taxes:</td>
<td>$0.21</td>
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<td>$0.21</td>
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</tr>
<tr>
<td>Divided by Sales Tax (including local sales taxes):</td>
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<td>$0.36</td>
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</tr>
<tr>
<td>Amount to which Sales Tax was Applied:</td>
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<tr>
<td>5% State Sales Tax:</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td></td>
</tr>
<tr>
<td>Est. State Sales Tax per Gallon on Gasoline:</td>
<td>$0.063</td>
<td>$0.052</td>
<td>$0.059</td>
<td>$0.064</td>
</tr>
<tr>
<td>Average Retail Price**:</td>
<td>$1.62</td>
<td>$1.45</td>
<td>$1.58</td>
<td>$1.67</td>
</tr>
<tr>
<td>Removing State Motor Fuel and other motor fuel taxes:</td>
<td>$0.23</td>
<td>$0.23</td>
<td>$0.23</td>
<td>$0.23</td>
</tr>
<tr>
<td>Divided by Sales Tax (including local sales taxes):</td>
<td>$0.38</td>
<td>$0.38</td>
<td>$0.38</td>
<td></td>
</tr>
<tr>
<td>Amount to which Sales Tax was Applied:</td>
<td>$1.15</td>
<td>$1.22</td>
<td>$1.34</td>
<td>$1.45</td>
</tr>
<tr>
<td>5% State Sales Tax:</td>
<td>5.0%</td>
<td>5.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Est. State Sales Tax per Gallon on Gasohol:</td>
<td>$0.044</td>
<td>$0.037</td>
<td>$0.042</td>
<td>$0.054</td>
</tr>
</tbody>
</table>

#### Estimated Amount of State Sales Tax Revenue from Diesel

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Price*</td>
<td>$1.62</td>
<td>$1.45</td>
<td>$1.58</td>
<td>$1.67</td>
</tr>
<tr>
<td>Removing State Motor Fuel and other motor fuel taxes:</td>
<td>$0.23</td>
<td>$0.23</td>
<td>$0.23</td>
<td>$0.23</td>
</tr>
<tr>
<td>Divided by Sales Tax (including local sales taxes):</td>
<td>$0.39</td>
<td>$0.39</td>
<td>$0.39</td>
<td></td>
</tr>
<tr>
<td>Amount to which Sales Tax was Applied:</td>
<td>$1.15</td>
<td>$1.22</td>
<td>$1.34</td>
<td>$1.45</td>
</tr>
<tr>
<td>5% State Sales Tax:</td>
<td>5.0%</td>
<td>5.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Est. State Sales Tax per Gallon on Diesel:</td>
<td>$0.064</td>
<td>$0.057</td>
<td>$0.062</td>
<td>$0.067</td>
</tr>
</tbody>
</table>

#### Gasoline Gallonage
- FY 2006: 2,404,159,956
- FY 2001: 1,869,854,393
- FY 2002: 2,002,947,643
- FY 2003: 1,176,502,664
- FY 2004: 1,109,804,812
- FY 2005: 1,109,804,812

#### Gasohol Gallonage
- FY 2006: 2,283,951,958
- FY 2001: 1,776,361,673
- FY 2002: 1,902,800,261
- FY 2003: 1,117,677,531
- FY 2004: 1,054,314,572
- FY 2005: 1,054,314,572

#### Sales Tax Revenue Generation
- Gasoline: $143,539,299 to $123,232,210
- Gasohol: $116,125,093 to $367,929,883
- Diesel: $64,755,714 to $123,544,906

#### Difference from Previous Year
- Gasoline: $-55,585,218 to $491,162,093
- Gasohol: $-9,229,178 to $401,162,093
- Diesel: $-9,229,178 to $401,162,093

Note: This does not include diesel gallonage.

* Current Price as of 8/31/05 according to AAA Motor Club’s website: www.fuelgaugereport.com.
** Average Price comes from the Oil Price Information Service (OPIS), provided to the Commission by the Department of Revenue.
*** As of July 1, 2003, 80% of sales of gasohol are subject to sales tax. Prior to July 1, 2003, only 70% of sales of gasohol were subject to sales tax.
**** The Sales tax on motor fuel was suspended for the period July 2000 thru December 2000. As a result, approximately $137 million of the total provided was not received by the State, and thus the reason for the reduced amount shown.
Table 2 also shows that, in FY 2002, when the average price of gasoline was $1.34, the applicable State sales tax per gallon was approximately 5.2 cents per gallon. In FY 2005, at an average price of $1.97 per gallon, the applicable State sales tax per gallon was approximately 8.2 cents per gallon. At the retail price of $2.72 per gallon (current price as of 8/31/05), the State sales tax per gallon was approximately 11.7 cents. (Again, because it is a flat tax, the motor fuel tax amount per gallon remains the same as the price of fuel increases). Chart 4 displays the tax components of the price of unleaded gasoline in Illinois, and highlights how the amount of sales tax per gallon increases as the fuel price increases.

![Chart 4: Tax Components of the Price of Unleaded Gasoline](image)

After applying the estimated amount of sales tax per gallon to the number of gallons of fuel for a particular year, the Commission was able to estimate the amount of sales tax revenue that was generated from motor fuel since FY 2001. The Commission estimates that approximately $439 million in sales tax revenue was generated from motor fuel in FY 2005, which was approximately $80 million higher than what was collected in FY 2004.

The Commission estimates that, if prices in FY 2006 remained at the current level of $2.72 (price as of 8/31/05), approximately $615 million in motor fuel related sales tax revenue would be generated. This is an increase of $175 million over FY 2005. However, it should be noted that the revenue increases from sales taxes on motor fuel do not necessarily equate 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.
Unfortunately, because sales tax revenues are collected on a total basis, it is extremely difficult for the Commission or the Department of Revenue to track what particular areas of sales the revenues are coming from. For example, a convenience store selling gasoline as well as chips, soda, etc., would report the aggregate amount of sales tax collected and would not (and do not have to) identify what areas the sales tax is coming from. While it is unlikely that a large increase in sales tax revenues from motor fuel would be totally offset by a reduction in sales tax revenues from other items, determining the extent of the offset cannot be accurately determined.

In FY 2005, Illinois generated $6.595 billion from the State sales tax. Therefore, the FY 2005 estimated amount of $439 million in sales tax revenue from motor fuel made up approximately 6.7% of all State sales tax revenue in FY 2005. As a result, sales from all other areas of sales made up the remaining 93.3%.

The following graph (Chart 5) displays the estimated amount of State sales tax revenue generated from motor fuel since FY 2001. In FY 2001, approximately $324.4 million in sales tax revenues from motor fuel would have been collected, however, the State suspended the sales tax on motor fuel for six months, reducing the amount of State revenue collected by approximately $157 million. An analysis of the 2000 sales tax suspension on motor fuel is provided in the following section.

As stated earlier, as a result of the production concerns relating to the hurricane, President Bush decided to tap the nation's Strategic Petroleum Reserve to help refiners hurt by Hurricane Katrina. At this point, it is too early to tell how this decision will affect future motor fuel prices in Illinois, and thus, the amount of tax revenue the State will receive from motor fuel. The Commission will continue to monitor the progress of these prices and will report of any new developments when necessary.
The high gasoline prices of 2005 have forced states throughout the country to look for ways of cutting the motor fuel prices. In early September 2005, Georgia legislators suspended the 7.5 cents-a-gallon gas tax and 4 percent sales tax on gasoline until October 1st. It is believed that this one-month tax break in Georgia will cut the cost of gasoline by around 15 cents per gallon and cost the state approximately $75 million. According to CNN.com, state lawmakers in other states, including Oklahoma, Massachusetts, Connecticut and Pennsylvania, have either proposed or are considering similar measures.

A state government response of cutting taxes during high prices is not new to Illinois. In the Summer of 2000, the prices became so abnormally high that the State of Illinois officials called a special session of the Illinois General Assembly to do what they could to help alleviate these high prices. As a result, 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.

The Joint Committee on Legislative Support Services directed the Commission to report to the General Assembly on the impact of the 5% Sales Tax reduction in Motor Fuel. The following is a list of some of the issues that the Joint Committee asked to be addressed:

A) if the reduction in the State Sales Tax was passed through to motorists;
B) if the reduction was maintained throughout the period; and
C) if the Sales Tax reduction resulted in an increase in total gallons of motor fuel sold and whether or not there was an increase in ancillary sales (food, beverages, lottery tickets, etc.) at motor fuel establishments;

In response, the Commission released a report in November 2000, entitled, “Suspension of Motor Fuel Sales Tax,” that addressed these issues. While definitive conclusions were not possible for many of these issues, the Commission was able to provide significant insight to each of the requested subjects. The following are summaries of the Commission’s findings. (For a more detailed discussion of these findings, please refer to the previously mentioned report.)

The first topic that the Commission was asked to address was whether the sales tax reduction was passed through to motorists. While the findings were inconclusive as to whether the total savings in sales taxes were immediately passed on to motorists, data suggested that the suspension of the tax did contribute to the lowering of pump prices at the time the sales tax suspension took place. However, the degree to which the reduction was passed on to motorists could not be precisely measured. A mitigating factor that severely limited this analysis was the fact that wholesale prices were falling at the same time the sales tax suspension went into effect. It was not possible to precisely assign what amount of that price change was due to the tax suspension and what amount was due to lower wholesale prices.
The second question asked whether the sales tax reduction was maintained throughout the period. For many of the same factors mentioned previously, the Commission’s ability to reach definite findings was limited. However, based on the available rack and margin data, it appeared that whatever impacts the suspension of the sales tax had on the price of fuel were maintained throughout the suspension period.

The next question asked if there was an increase in total gallons of motor fuel sold, as a result of the sales tax reduction. The answer to this question is probably not. In fact, for gasoline, gallonage figures for July through December of 2000 were actually 4.63% below the gallonage figures of 1999 for the same time period. The same held true for diesel, as 2000 gallonage figures were 3.16% below the gallonage data of 1999 for the months of July through December. It should be noted that this does not mean that all locations throughout Illinois experienced a decline in motor fuel sales. Gas stations near state borders may very well have seen an increase in motor fuels sales. However, it appears that any increase in sales that these locations experienced were more than offset by the decline of motor fuel sales in Illinois as a whole.

As for the other questions that the Commission addressed in the report, the answers remain the same. Because of the way sales are reported to the Department of Revenue, it was impossible to know whether ancillary sales increased as a result of the sales tax reduction on motor fuel. Lottery sales data continued to indicate that the impact that the suspension of the motor fuel sales tax had on lottery sales was minimal at best.

When the high gas prices of 2000 occurred, many questions arose asking for the causes of these high prices and whether these price increases were warranted. In response, U.S. Senators and Representatives strongly urged the Federal Trade Commission to take a closer look at the gasoline prices and to report to them of their findings. In their interim report, the FTC stated, “The sheer magnitude of the price increases, their particular intensity in one section of the country, and their occurrence in conventional gasoline as well as in RFG, prompted the Commission’s Bureau of Competition to consider the reasons for the price increases and, specifically, whether price fixing or other illegal activity might have occurred.”

On March 30, 2001, the results of the FTC investigation were released to the public. The following are excerpts from their press release:

> While the Commission found no credible evidence of collusion or other anticompetitive conduct by the oil industry, the investigation found that a combination of many factors was likely responsible for the price spike...The report states that the spike "appears to have been caused by a mixture of structural and operating decisions made previously (high capacity utilization, low inventory levels, the choice of ethanol as an oxygenate), unexpected occurrences (pipeline breaks, production difficulties), errors by refiners in forecasting industry supply (misestimating supply, slow reactions), and decisions by some firms to maximize their profits (curtailing production, keeping available supply off the market)."
"There were many causes for the extraordinary price spike in Midwest markets last summer," stated Chairman Robert Pitofsky. "Importantly, there is no evidence that the price increases were a result of conspiracy or any other antitrust violation. Indeed, most of the causes were beyond the immediate control of the oil companies. There were, however, some strategic choices by some oil companies designed to maximize profits that contributed to the temporary price increases. Once the magnitude of the price increases became apparent, several oil companies moved aggressively to bring supply into the Midwest market, and the price spike was eliminated." Pitofsky added that "while there were many short-term causes of the increases, the underlying lack of U.S. refinery capacity threatens similar price spikes in the future in the Midwest and elsewhere."

In response to these findings, Jeremy Burlow, the director of the Bureau of Economics for the Federal Trade Commission, expressed his concern that price spikes may be repeated in the future.

Over the years the capacity of U.S. refiners has not kept pace with the growth in demand for refined products. Average capacity utilization in 2000 was 94 percent, and higher in the summer. So most refineries are running at close to full capacity most of the time. This also means that there is no slack capacity available to respond quickly to a price shock. This trend is likely to continue. Most areas in the U.S. are not particularly interested in having a new refinery built nearby, and the cost of meeting U.S. regulations is high. If demand continues to outstrip capacity then ultimately imported products will become the marginal source of supply for some oil products. Inevitably it will take importers longer to respond to supply imbalances than domestic refiners, so it is quite likely that we will see more price spikes in the future.

Four years later, it appears that Mr. Burlow’s concerns were valid, as prices have continued to experience price spikes and reach record levels.
Taxes Included in the Price of Motor Fuel:

As mentioned earlier, there are various taxes that are included in the retail price of motor fuel. The following is a description of these taxes, including a detailed look at the State’s Motor Fuel Tax.

Federal Motor Fuel Tax:

Rate:  18.4 cents per gallon (gasoline)
      24.4 cents per gallon (diesel)

State Motor Fuel Tax:

The State’s Motor Fuel Tax is imposed on motor fuel for 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

The current rate and base of the motor fuel tax is:

Gasoline:  19 cents per gallon, plus (a) and (b).
Diesel (Special Fuel):  21.5 cents per gallon, plus (a) and (b).

Gasoline, special fuel, aviation fuel (unless sold at Midway or O’Hare Airports), kerosene, and home heating oil:

(a) 0.3 cents per gallon tax for Underground Storage Tank Fund (until 2013)
(b) 0.8 cents per gallon environmental impact fee (until 2013)
**Tax Rate History:**

The following is a rate summary of the motor fuel tax since its implementation in 1927:

<table>
<thead>
<tr>
<th>Year</th>
<th>Gasoline</th>
<th>Diesel</th>
<th>Year</th>
<th>Gasoline</th>
<th>Diesel</th>
<th>Year</th>
<th>Gasoline</th>
<th>Diesel</th>
</tr>
</thead>
<tbody>
<tr>
<td>1927</td>
<td>2.0 cents</td>
<td>2.0</td>
<td>1967</td>
<td>6.0</td>
<td>6.0</td>
<td>1985</td>
<td>13.0</td>
<td>15.5</td>
</tr>
<tr>
<td>1929</td>
<td>3.0</td>
<td>3.0</td>
<td>1969</td>
<td>7.5</td>
<td>7.5</td>
<td>1989</td>
<td>16.0</td>
<td>18.5</td>
</tr>
<tr>
<td>1951</td>
<td>4.0</td>
<td>4.0</td>
<td>1983</td>
<td>11.0</td>
<td>13.5</td>
<td>1990</td>
<td>19.3</td>
<td>21.8</td>
</tr>
<tr>
<td>1953</td>
<td>5.0</td>
<td>5.0</td>
<td>1984</td>
<td>12.0</td>
<td>14.5</td>
<td>1996</td>
<td>20.1</td>
<td>22.6</td>
</tr>
</tbody>
</table>


The temporary tax of 0.3 cents per gallon was added in 1990. This tax is used to pay for leaking underground storage tanks. The temporary tax of 0.8 cents per gallon was added in 1996. This tax is used as an environmental impact fee.

**Revenue Collections History:**

**TABLE 3: State Motor Fuel Tax (Gross) Revenue History**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Revenue $ in millions</th>
<th>% Change</th>
<th>Fiscal Year</th>
<th>Revenue $ in millions</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>$937</td>
<td>-</td>
<td>1998</td>
<td>$1,325</td>
<td>5.5%</td>
</tr>
<tr>
<td>1991</td>
<td>$1,031</td>
<td>10.0%</td>
<td>1999</td>
<td>$1,355</td>
<td>2.3%</td>
</tr>
<tr>
<td>1992</td>
<td>$1,050</td>
<td>1.8%</td>
<td>2000</td>
<td>$1,384</td>
<td>2.1%</td>
</tr>
<tr>
<td>1993</td>
<td>$1,088</td>
<td>3.6%</td>
<td>2001</td>
<td>$1,394</td>
<td>0.7%</td>
</tr>
<tr>
<td>1994</td>
<td>$1,140</td>
<td>4.8%</td>
<td>2002</td>
<td>$1,400</td>
<td>0.4%</td>
</tr>
<tr>
<td>1995</td>
<td>$1,171</td>
<td>2.7%</td>
<td>2003</td>
<td>$1,416</td>
<td>1.1%</td>
</tr>
<tr>
<td>1996</td>
<td>$1,225</td>
<td>4.6%</td>
<td>2004</td>
<td>$1,453</td>
<td>2.6%</td>
</tr>
<tr>
<td>1997</td>
<td>$1,256</td>
<td>2.5%</td>
<td>2005</td>
<td>$1,465</td>
<td>0.8%</td>
</tr>
</tbody>
</table>

Source: Comptroller’s Office

**CHART 6: Illinois Motor Fuel Tax Revenue**

$ in millions

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Motor Fuel – September 2005   Page 18
**Motor Fuel Tax Distribution:**

The distribution of revenue from the Motor Fuel Tax is spread out between several different areas. Sufficient amounts pay for administrative expenses, refunds, and Illinois Court of Claims judgments. It also is distributed to several funds, which includes: the Vehicle Inspection Fund, the State Boating Act Fund, the Grade Crossing Protection Fund, the State Road Fund, and the State Construction Account Fund. Additional amounts are also apportioned to municipalities, counties, townships, and road districts in the State of Illinois.

In FY 2005, revenue from the motor fuel tax was distributed in the following manner:

**FY 05 Motor Fuel Tax Revenue:**  $1,363.8 million (does not include environ. fees)

Administration Expenditures: $31.1 m  
Vehicle Inspection Fund:  $30.0 m (statutorily set through 2006)  
Other Expenses:  $57.6 m (Refunds, payments, & other transfers)

Apportioned Transfers:  $1,240.3 m  
State Boating Act Fund:  $5.04 m (statutorily set)  
Grade Crossing Protection Fund:  $27.0 m (statutorily set)  
Municipalities:  $313.2 m (49.10% of 54.4% of remaining funds)  
Cook County:  $106.8 m (16.74% of 54.4% of remaining funds)  
All Other Counties:  $116.6 m (18.27% of 54.4% of remaining funds)  
Townships and Road Districts:  $101.4 m (15.89% of 54.4% of remaining funds)  
State Road Fund:  $336.9 m (63.00% of 45.6% of remaining funds)  
State Construction Account Fund:  $197.9 m (37.00% of 45.6% of remaining funds)  
State Construction Account Fund:  $35.6 m (Additional Diesel Tax)  

**FY 2005 Total Expenditures:**  $1,359.0 million  

Additional Motor Fuel Related Tax Revenue went to:  
Underground Storage Tank Fund:  $71.9 m (Additional Motor Fuel Tax)  
County Option Motor Fuel Tax:  $30.8 m

Source:  June 2005, Monthly Management Report, Illinois Department of Transportation

Other taxes that impact the price of motor fuel include:

**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. DuPage and McHenry Counties collect 4 cents, and Kane County collects 2 cents. Any city of over 100,000 can also impose a tax of 1 cent per gallon by referendum. Rockford
imposes a tax under that provision. In addition, 18 home-rule cities impose taxes of various amounts.

Sales Tax:

A state sales tax of 6.25% is also imposed on motor fuel. Of that, the State keeps 5% of the purchase price and pays the remaining 1.25% to local governments. For gasohol, the retailers’ occupation tax applies to only 80% of the sales price.

The State sales tax (5%) on regular motor fuels and gasohol was suspended from July through December 2000, but resumed on January 1, 2001. The estimated amount of money that consumers saved by this suspension was between 7 and 10 cents per gallon, depending on the wholesale price of gasoline. This is because a higher price of motor fuel equates to a larger amount of sales tax imposed on that amount of motor fuel.

Besides Illinois, only nine other states also collect general sales taxes on motor fuel. These states are California, Florida, Georgia, Hawaii, Indiana, Michigan, New York, Virginia, and West Virginia.

Local Sales Tax:

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 2.75% in the City of Chicago. Therefore, adding the State sales tax of 5.0%, the 1.25% local government sales tax, and the additional 2.75% home-rule tax, in Chicago, the combined sales tax rate is 9.0%.

Federal Sales Tax:

None.
Motor Fuel Tax Comparison: Illinois versus the other States

So how does Illinois compare to other states when taxing motor fuel? According to State Rankings 2005, state tax rates on gasoline in 2004 ranged from 31 cents per gallon in Rhode Island to 7.5 cents per gallon in Georgia. (Again, Illinois is at 19.0 cents for gasoline). Illinois’ tax rate ranked them 31st in the nation in this category. The national average tax rate was 20.3 cents per gallon. A graph depicting this ranking and how Illinois compares with other Midwestern states is shown below in Chart 7.

Several states periodically reset rates per gallon based on the retail or wholesale price of motor fuel, or other factors. These states are Delaware, Florida, Kentucky, Nebraska, North Carolina, Ohio, and Wisconsin. Wisconsin’s rate is based on the national Consumer Price Index for All Urban Consumers.

According to the National Conference of State Legislators, during the latest legislative session, four states made legislative changes to increase their motor fuel tax revenue. Kentucky increased their minimum average wholesale price from $1.11 to $1.22 per gallon, raising $15 million. Washington increased their motor fuel tax rates by 3 cents this year and 9.5 cents total over four years for a revenue increase of $83 million. North Dakota passed a two-cent increase in its gas tax, which will generate approximately $9.8 million. In addition, Ohio reduced dealer discounts generating approximately $6 million.

Also, according to State Rankings 2005, Illinois ranks sixth, behind California, Texas, Florida, Pennsylvania, and Ohio, in the amount of State revenue collected for the Motor Fuel Sales Tax with a 2003 amount of $1.4 billion. (California was first at $3.2 billion.) However, Illinois ranked 38th in the nation when the revenue from motor fuel was on a per capita basis with a rate of $110 per capita. First was the state of Montana with a per capita rate of $210. The per capita rate for the nation was $111. On the following page are graphs depicting these rankings.
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 “Illinois Bond Watcher” report examines the State's debt position as well as other issues directly related to conditions in the financial markets. 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/cgfa/cgfa_home.html