

Overview of 2008 Indexing and Alabama Indexing Legislation

Indexing Alabama's gasoline and motor fuel taxes assures consistent investment in a transportation system that is essential to all citizens of Alabama every day of their lives. Indexing provides Alabama residents stable revenues for maintenance, safety and capacity improvements of state highways and bridges. This index will be based on the cost of materials required to expand and maintain Alabama's road and bridge system.

Alabama's Gasoline Tax Rate: 16-cents per gallon (2-cent inspection fee)

Alabama's Motor Fuel (diesel) Tax Rate: 19-cents per gallon (no inspection fee)

What is "Indexing?" Indexing calls for Alabama's state gasoline and motor fuel excise tax rates to be reviewed and adjusted annually. The indexing formula considers changes in construction material prices and taxable fuel consumption in an attempt to provide adequate revenue to meet inflationary pressures on the cost of roadway construction and maintenance while taking into account the implicit revenue growth from any increase in fuel consumption.

How will this formula work? The existing excise tax rates on gasoline and motor fuel become the base rates for this formula. The formula takes a ratio of the current Highway Construction and Maintenance Cost Index (maintained by the Federal Highway Administration) divided by the same index for a base year and multiplies it by a ratio of a base year of Gasoline and Motor Fuel Taxable Volumes divided by the same volumes for the current year. The base excise tax rates are then multiplied by the result of this calculation to produce the annually adjusted tax rate on or around July 1 each year.

Why do we need fuel indexing in Alabama? Materials used in road and bridge building have significantly increased in price since the last increase in Alabama's gasoline and motor fuel tax rates – the critical source of revenue for building and maintaining Alabama's roads and bridges. There is no natural growth in state gasoline tax revenue. The flat "16-cents per gallon" rate does not change, even as the price of gasoline rises. This rate has been in place since 1992.

Gasoline tax revenues have grown an average of only 1.1% annually and motor fuel tax revenues have grown an average of 4.9% annually since 1993.

Why did you use 1993 as a base year? 1993 was the first year after the last 5-cent per gallon gasoline and motor fuel tax was implemented by the Legislature. This increase allowed Alabama to "match" an increase in available federal highway funds and adequately fund a state roadway maintenance program. Inflationary pressures have since eroded the state's ability to consistently fund an adequate state roadway maintenance program while continuing to meet its "match" requirements.

What will "Indexing" do to rates on gasoline at the pump? The price of gasoline results largely from the forces of supply and demand for petroleum products worldwide, crude oil prices, and refinery capabilities. Dramatic price swings in the cost of gasoline are almost always due to world, national, and market events that influence supply and demand, and in turn, price. Small changes in state tax rates on gasoline do not influence the basic supply and demand curves that establish the price of gasoline at the pump in Alabama and throughout the nation.

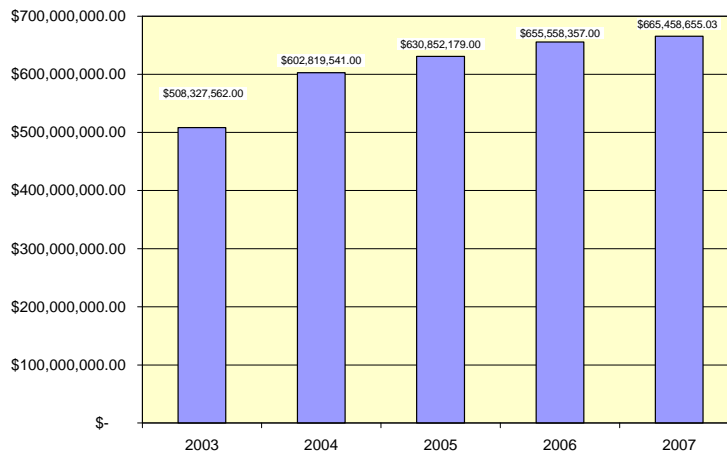
What will the new rates be when indexing is implemented? (Based on the 16-cent per gallon gasoline tax rate and 19-cent per gallon motor fuel tax rate and base year of 1993)

	Gasoline	Motor Fuels
2009 - Year One (20%)	17.4 cpg	19.7 cpg
2010 - Year Two (40%)	18.8 cpg	20.5 cpg
2011- Year Three (60%)	20.3 cpg	21.2 cpg
2012 - Year Four (80%)	21.7 cpg	21.9 cpg
2013 - Fully Implemented	23.1 cpg	22.7 cpg

Prices for road building materials have increased dramatically since 1993. For example:

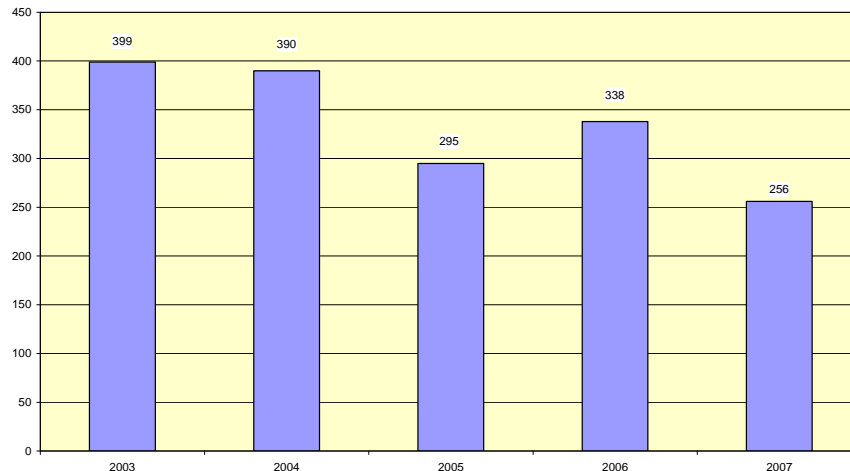
	1993	2007
Crude Oil	\$15.98	\$58.08
Asphalt/ton	\$30.00	\$55.00
Aggregate/ton	\$4.00	\$6.00
Steel/ton (rebar)	\$250.00	\$600.00

ALDOT Contract Award Amounts 2003-2007



Source: Alabama Department of Transportation Office Engineer
November 2007

ALDOT Number of Contracts Awarded 2003-2007



Source: Alabama Department of Transportation Office Engineer
November 2007