

INFORMATION: Motor-Fuel Reporting Information
Committee Meeting Summary

February 18, 1999

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HPM-10

FHWA Division Administrators

Attached is a summary of the Motor-Fuel Reporting Information Committee Meeting, which was held in Washington, D.C., on December 10-11, 1998, to identify and discuss issues and areas for improvement in the motor-fuel reporting system.

The Federal Highway Administration (FHWA), the American Association of State Highway and Transportation Officials (AASHTO), and the Federation of Tax Administrators is co-sponsoring this Committee. Attendees included subject matter experts from State tax and transportation agencies, FHWA Headquarters and field staff, and representatives from AASHTO and the Federation of Tax Administrators.

As you know, the Transportation Equity Act for the 21st Century (TEA-21) has increased the importance of Motor Fuel Data. Highway use of diesel fuel is a direct National Highway System apportionment factor. State-by-State motor-fuel data is used to attribute each State's share of payments to the Highway Trust Fund. These attributed payments, in turn, are significant factors in the formulas used to apportion Interstate Maintenance, Surface Transportation Program, and Minimum Guarantee funds. Total Federal funds relying on motor-fuel as a factor were about \$9.4 billion in FY 1998 and \$10.8 billion in FY 1999.

Because of the far greater amount of Federal funds relying on State-reported motor-fuel as apportionment factors, the Office of Highway Policy Information is reviewing and improving the motor-fuel reporting system. The Committee, chaired by Nicholas Graf--North Carolina Division Administrator--is assisting FHWA in evaluating the current motor-fuel reporting system and developing recommendations for improvement.

As you will note, one of the recommendations made by the Committee was that AASHTO and the Federation of Tax Administrators survey the States to gauge State ability to report various details of motor-fuel. Soon AASHTO and the Federation of Tax Administrators will send this survey to their State members as well as data preparers. We will make sure that a copy of that same survey is sent to FHWA Division Offices for information and follow-up, if needed.

Please share the attached summary with transportation and taxation officials in your State. My office welcomes comments on this summary as well as comments on the motor-fuel reporting section of *A Guide to Reporting Highway Statistics*. If at anytime you need to discuss this matter, please call us at (202) 366-0180.

Attachment

cc: Resource Center Directors

Federal Highway Administration
Motor Fuel Reporting Information Committee

Meeting Summary

December 10-11, 1998

Washington, D.C.

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I. Introduction

The Transportation Equity Act for the 21st Century (Public Law 105-178) (TEA-21) has increased the importance of State-by-State, motor-fuel use data in attributing Highway Trust Fund (HTF) estimated tax payments and commercial vehicle contributions to highway users in each State. The motor-fuel use data is input to the apportionment of Federal-aid highway program funds, including funds for the Federal Surface Transportation Program, National Highway System, Interstate Maintenance and Minimum Guarantee. An estimated \$3.9 billion in fiscal year 1998 apportionments of highway fuel taxes and commercial vehicle contributions was directly related to motor-fuel gallonage data; in addition, Minimum Guarantee payments were almost \$5.4 billion in fiscal year 1998.

Recognizing the increasing importance of accurate, timely reporting of motor-fuel and related “receipts attributable to highway users in each State” data in determining State funding shares, the Federal Highway Administration (FHWA) is reviewing the motor-fuel data reporting system used to collect this critical information. As part of the review process, FHWA established the Motor-Fuel Reporting Information Committee (Committee) to assist in evaluating the current system and in developing recommendations for improvement (see *Motor-Fuel Reporting Information Committee: Achieving Quality Results* in Attachment A). Recommendations accepted by FHWA will be incorporated into future revisions to *A Guide to Reporting Highway Statistics (Guide)* that provides State data reporters with the procedures to follow in preparing and submitting data reports and information to FHWA.

Members of the Motor-Fuel Reporting Information Committee met in Washington, D.C., December 10-11, 1998, to identify and discuss issues and areas for improvement in the motor-fuel data reporting system. Attendees included subject matter experts from State tax and transportation agencies, FHWA Headquarters and field staff, and representatives from the American Association of State Highway and Transportation Officials (AASHTO) and the Federation of Tax Administrators (FTA). (AASHTO and FTA are co-sponsoring organizations with FHWA.)

The objectives of the Information Committee meeting were to:

- Review current procedures for reporting State fuel use data;
- Identify issues affecting the timeliness, accuracy, and uniformity of reported data;
- More clearly explain and reexamine the attribution methodology used by FHWA to estimate Federal Highway Trust Fund receipts paid by highway users in each State;
- Discuss the adjustments made by FHWA to State-reported data in deriving published motor fuel and State revenue statistics and;

- Identify possible changes to increase the efficiency of the data collection process, to provide greater uniformity in reported data, and to ensure accuracy in the State attribution figures.

The Committee meeting provided a forum for evaluating the unique Federal-State partnership needed to collect motor-fuel gallonage and supporting State revenue data needed to apportion Federal-aid Highway funds where motor-fuel is a direct factor and estimate the attribution of Federal motor-fuel and Federal highway user taxes to States based on motor-fuel use. The FHWA's attribution procedure is described in detail in the *Highway Information Update*, Vol. 3, No. 1, August 3, 1998, included as Attachment B. (The document is also available on the FHWA Website at www.fhwa.dot.gov/ohim under "Reports and Publications")

Because highway fuel consumption data is derived primarily from State tax agency information, there is significant State-by-State variation in the way certain items are defined, captured, and reported. In addition, a number of State fuel tax concepts (e.g., refunds, assessments, exemptions and loss allowances) generally cannot be directly related to either the amount of fuel consumed or the month when the fuel was actually used. For these reasons, FHWA must make a number of adjustments to the State-reported monthly data on form FHWA-551M to develop a uniform database across States. The FHWA ensures that all such adjustments are made in accordance with *Guide* instructions. The adjusted use data is published monthly in FHWA's *Monthly Motor Fuel Reported by States* report and appears in summary tables in the annual *Highway Statistics*.

As called for in the attribution process, the fact that State level data are used to estimate highway use of motor-fuel means that accurate attribution estimates fundamentally depend on the quality of the data submitted by each State. Highway use of motor-fuel factors estimated in the attribution process include highway use of gas, gasohol, diesel, and special fuels. State tax and transportation agencies are the primary source of the highway use data and, therefore, are key players in the data reporting system.

II. Proceedings

A. Opening Remarks

Meeting attendees were welcomed by Nicholas Graf, Committee Chair and FHWA North Carolina Division Administrator. Dr. Walter L. Sutton, Jr., FHWA Associate Administrator for Policy, described the importance of the workshop in supporting FHWA's initiatives in improving the motor-fuel reporting process and in ensuring the accuracy of highway-fuel use data. He thanked the Committee members for their commitment to working closely with FHWA in this important effort.

Dan Corbett, professional staff member of the Senate Committee on Environment and Public Works, had a Congressional staff role in TEA-21 development, including apportionment formulas. He provided the Committee with an overview of the legislative perspective on the highway fuel use data and the attribution factors used to apportion Highway Trust Funds to the States. He emphasized the

importance of providing uniform, stable estimates of highway fuel use that are viewed as accurate measures of State-by-State highway fuel use. While the estimates are not always well understood, this information receives very close attention in the budget and policy legislative process. For this reason, it is important for FHWA and State data reporters to develop an accurate and uniform data reporting system.

B. Background Briefings

Ralph Erickson and Marsha Reynolds presented the Committee with an overview of FHWA's process and procedures for collecting and reporting monthly motor fuel data and the procedures for using this information to estimate annual attribution factors. The presentations provided Committee members with a better understanding of the different data requirements for the monthly and annual statistical reports and for use as attribution factors. Included in the presentations were briefings on the attribution process, motor fuel reporting, form FHWA-551M, and models for estimating missing or incomplete data.

1. Attribution Methodology

Ralph Erickson discussed the attribution process in some detail. He described the attribution process noting that the basic assumption is that Federal motor fuel receipts to the Highway Trust Fund are received from each State in proportion to the highway use of gallons of motor fuel in each State compared to the total highway use of gallons of motor fuel in all States. In other words, the total receipts for each fuel type (gasoline, diesel, gasohol) collected by the Treasury Department are assigned to each State on the assumption that the revenue is in proportion to the amount of motor fuel gallons consumed in a State, compared to the total amount of gallons of that motor fuel consumed in the United States. For Federal truck taxes that are not measured in gallons (truck retail excise, tire, and heavy vehicle use taxes), revenues are assigned according to the State's proportion of diesel fuel gallons reported.

Several interesting questions were raised by this presentation. One of the difficulties in attributing HTF payments is the proposition that there seem to be two distinct methods for attribution. The first is the concept or objective of returning Federal highway tax collections to the States in proportion to actual Federal tax payments in a State. The second is the distribution of revenues to the States in proportion to highway use as measured by fuel consumption. It was pointed out that in attribution FHWA used the second concept, highway use of motor-fuel, to achieve the first objective of attributing Highway Trust Fund payments.

Following this discussion, a Subcommittee was appointed to review and clarify the current-law requirements for the type of data needed to calculate accurately both fuel taxes paid and highway use. Furthermore, an improved explanation of the attribution and apportionment methodologies

will be developed for distribution. *Subcommittee members are Ron Tweedie, Dave Green, and Ralph Erickson.*

2. Motor Fuel Use Reporting

Marsha Reynolds carefully reviewed the current FHWA process and procedures for collecting highway-use information from the States, preparing monthly and annual statistical reports, and in calculating attribution factors. She used examples of each of the forms used by FHWA in the data reporting process. She took the participants through a step-by-step description of the form FHWA-551M using the States of Alaska and Oklahoma as examples. These States were chosen as illustrative examples because one State shows large amounts of sub-categorized data and the other shows no subcategories of data.

Marsha Reynolds also reviewed selected sections of the FHWA *Guide*. She pointed out areas where States have trouble reporting data and described how the data should be presented. Her presentation was followed by a number of questions and answers and discussion providing participants with an opportunity to clarify definitions and to discuss reporting issues.

3. Motor Fuel Analysis and Modeling

Ralph Erickson provided the Committee with an overview of the analysis and modeling methodologies used by FHWA in adjusting and supplementing reported State data. These adjustments affect both the monthly reporting of motor-fuel use and the motor fuel attribution estimates. The analysis process includes comparing reported motor-fuel gallons with State motor-fuel tax collections reported on form FHWA-556.

The FHWA combines State-reported data with internal adjustments and estimates to derive the State-by-State motor fuel data used in statistical reports and in determining the attribution of Highway Account receipts to each State. Committee members reviewed the specific forms and worksheets, including analysis Form MF-20 for selected States, and the 1997 Attribution Worksheet for all States, to gain a better understanding of the process used by FHWA.

The FHWA uses a set of models to develop State-by-State estimates for several components of motor-fuel use. These include estimating models for public (Federal civilian and State, county and municipal) use of gasoline, non-highway use of gasoline and highway use of gasohol. This is information that many States cannot identify or report separately from State motor-fuel tax information. The gasohol model, for example, is used to determine the distribution of total gasohol gallons by the three Federal gasohol tax categories because State tax systems are typically based on a single category of gasohol. The database for the gasohol model is currently being updated, but the structure of the model is not being changed.

The FHWA also uses model estimates for missing State data or as a substitute for State-reported data to improve the uniformity and accuracy of the information. State data reporters indicated that they would benefit from receiving on-going feedback from FHWA staff on the adjustments

actually made to State-reported data. This information will help State agency staff improve the quality and uniformity of data reports and explain the reporting system to other State stakeholders, including legislative staff. The FHWA staff indicated that State data reporters will receive information describing the adjustments in the future. The FHWA requested that State reports include detailed explanations of what is included in the consumption categories on the monthly reports.

Committee members also discussed the more general issue of FHWA estimation of missing State data. The FHWA has been estimating this information so that States that cannot report all of the needed details will not be disadvantaged in the attribution to highway use in their States. Committee members supported the continued estimation of missing data by FHWA. However, it was suggested that States may be able to provide more accurate and complete estimates as State data reporters become more familiar with FHWA estimation procedures and as the survey work (See item II. C.4.) identifies additional data sources that States may have. Participants agreed that a well-documented estimation system is a necessary component of FHWA fuel-use reporting and attribution procedures.

C. Open Discussion

The following summarizes the Committee meeting discussions of specific data reporting issues for the monthly fuel consumption reports, as well as the attribution estimating process.

1. Uniformity of Definitions

A key operational factor in providing accurate highway use and motor fuel collection data is the clarity and uniformity of definitions used by State agencies to complete monthly reports. To the extent possible, FHWA terms and definitions should be consistent with those used by tax agencies and organizations including the IRS, State tax agencies, and the Federation of Tax Administrators. A Subcommittee will review the definitions and terms in the *Guide* and recommend changes that would increase uniformity and address reporting problems. *Subcommittee members are Janet Stege, Bob Beck, Nancy Kramer, and Ralph Erickson.*

Committee members also discussed the need to ensure reporting uniformity over time within a State. This requires close communications among different State agencies, as well as between State agencies and FHWA.

2. IFTA Reporting

As a result of the International Fuel Tax Agreement (IFTA) provision of the Intermodal Surface Transportation Efficiency Act, all States are participants in IFTA's interstate motor-carrier fuel

reporting system. The objective in reporting interstate motor-carrier fuel consumption data under IFTA protocols is to determine tax liability by the State in which the fuel is used, not the State in which it is purchased. The implementation of IFTA has improved the accuracy of State-by-State fuel use data by providing measures of State fuel consumption, not measures of location of the purchase of the fuel. Committee members noted that the IFTA process is working well for both fuel taxpayers and State tax agencies.

The IFTA process does, however, raise several issues for the highway fuel reporting system. First, there may be differences in the way States are making IFTA net adjustments. State reporters should be adding gallons converted from revenue transferred from other States and subtracting gallons converted from revenue transferred out to other States. These adjustments are needed to accurately measure gallons of highway fuel used in a State. Second, there is a significant lag (up to 6 months) before States receive the net fuel use figures for each quarter. Gary Maring emphasized the importance of submitting IFTA data before the deadline for determining the annual attribution figures. Third, the quarterly reporting pattern can distort the monthly fuel consumption data.

Given the importance of ensuring accurate and consistent reporting of IFTA information, a Subcommittee was appointed to draft a separate explanation of the procedures and instructions for reporting IFTA data. The instructions will be distributed to State agencies by FHWA. *Subcommittee members are Bob Beck, Steve Zych, Janet Stege, and Marsha Reynolds.*

3. Timing of Reports

The frequency of reporting should reflect the purposes for which the data is used, as well as FHWA's need to ensure timeliness, uniformity, and accuracy in reports derived from the State-provided data. Timing issues included three dimensions: 1) frequency of reporting (monthly vs. quarterly), 2) due date following the close of the reporting period, and 3) the final deadline for corrections and additional information to be included in the final annual attribution calculations.

The FHWA currently requires States to submit motor-fuel use data monthly. Attendees discussed the option of reporting data quarterly rather than monthly. The primary arguments in favor of quarterly reporting include greater accuracy due to the availability of more complete State consumption data, problems of including IFTA quarterly data in monthly reports, and reduced resource commitments for State agencies.

There were, however, strong arguments in favor of continuing the monthly reports. The FHWA monthly figures are the only motor fuel data collected this frequently at the State level, and is used in reports of on-going interest to the public. In addition, processing and correction of monthly data allows FHWA staff to smooth out workflows during the year to meet the schedules for annual attribution reports.

The FHWA requires States to submit the monthly motor-fuel use data within 60 days of the close of the reporting month. In discussing this point, it was noted that roughly half of the States have difficulty in submitting data within the 60-day target. By requiring the data too quickly, FHWA is

risking receiving data that has not had the scrutiny required for accuracy. The FHWA staff agreed that this requirement is too stringent and will extend the deadline to 90, or possibly 120, days after the end the reporting period in the next revision of the *Guide*. The FHWA staff pointed out, however, that States should not begin to implement actions until the *Guide* is officially revised.

On the final point, it was noted that annual attribution figures are derived from monthly totals with a lag of up to 18 months after the end of the calendar year. This provides States with an opportunity to revise and correct their data before attribution is finalized. The committee requested that States have the opportunity to make final changes before the final attribution.

In summary, there was overall agreement among participants that reports should continue to be submitted on a monthly basis, but the due date for form FHWA-551M should be extended from 60 to 90 or 120 days after the month's end. No recommendations were made concerning changes in the deadline for final attribution data.

4. Data Reporting Capabilities

A number of specific data reporting issues were discussed by the participants. As a general comment, it was noted that significant differences exist in States' capabilities to report detailed data on highway use of gasoline, gasohol, diesel, and alternative fuels.

A common theme that cut across each of the detailed reporting issues was the extent to which FHWA staff should adjust State-supplied data to achieve equitable consideration and to improve accuracy and State-by-State consistency. It was suggested that FHWA identify the additional data items that should be included in reporting statistical data and could be used in estimating State attribution percentages. Each of the possible adjustments could then be evaluated in terms of the expected benefits of the adjustments relative to the costs, such as additional State staff effort to report the data.

A related issue is whether FHWA should impute values for data items that are not reported by the States for various reasons, including the lack of timely information. An alternative would be to use only reported data. Under this approach, States that do not report requested information could receive a smaller share of distributed highway funds.

It was noted that FHWA must follow policy guidance and legislative intent on the reporting requirements and procedures for some of the specific reporting issues. The objective is to ensure that FHWA calculations accurately measure the bases intended to be used for fund distributions.

A Subcommittee was appointed to develop a survey to determine reporting capabilities. *Members of the Subcommittee are Steve Zych, Gary Smith, Liz Grider, Ron Alt, Dave Clawson, and Tom Howard.* The Subcommittee will work with AASHTO and FTA in carrying out the survey. The Subcommittee will also consider the data uniformity issues discussed by participants in determining what questions to include in the survey.

5. Fuel Losses

A number of States allow taxpayers specific percentage losses for State fuel tax purposes. The allowances are designed to reflect fuel amounts that are lost in the distribution process (for example, through evaporation) and, therefore, are not attributable to highway use. These figures are currently being reported by States. To ensure uniformity of treatment, FHWA caps the loss at 1 percent of gross fuel reported. This adjustment has been used to show an accurate, consistent picture of highway use of motor-fuel net of losses. The FHWA does not make any adjustments for States that do not allow losses.

Because fuel losses are primarily a State fuel tax adjustment that does not reflect actual fuel loss, participants recommended that FHWA remove the fuel loss estimates from the monthly reports. The FHWA should determine if reliable State-by-State estimates for fuel loss are available from alternative sources or if fuel loss estimates should be modeled by FHWA.

Participants also discussed several other issues related to accurate reporting of fuel use. The first was the issue of evasion of State fuel taxes that could result in an understatement of actual fuel use. It was noted that FHWA had no independent information to make any reliable estimates of evasion. A second issue that could lead to under reporting State fuel use is the purchase of lower-cost fuel in bordering States. To the extent that these out-of-State purchases are significant, in-State fuel use may be understated. Currently, FHWA does not have any information to use in modeling this cross-border effect.

6. Assessments

In administering fuel taxes, States often assess taxpayers for taxes due but not paid. Current FHWA guidelines require that assessments (as well as late payments) be reported in the month actually received. It appears that some States may be reporting assessments at the time assessments are made, while others are reporting assessments when they are actually paid by taxpayers. Based on Committee discussions, it was recommended that FHWA should revise the *Guide* to state that assessments should be reported at the time that final tax liabilities are determined.

7. Alternative Fuels

As fuel users respond to fleet efficiency requirements and air quality standards, alternative fuels, including gasohol, will become more important components of total fuel consumption. This will require adjustments to the reporting procedures to ensure greater uniformity. Issues include definitions of alternative fuels (LPG, CNG and LNG, for example) and the use of State decals for tax collection in place of per-unit fuel taxes. The gallon equivalent of alternative fuel consumption covered by decals needs to be attributed to the States to accurately measure highway use. Currently, State reporters are estimating the number of gallons associated with decal payments using specific conversion formulas.

The Committee discussed alternatives for determining the gallons corresponding to alternative fuels. One option is to have FHWA establish conversion rates that can be used by each State, or to make the conversions part of an FHWA analysis. Participants recommended that alternative fuels reporting issues should be dealt with in the future when alternative fuels become a larger portion of total motor-fuel consumption. The FHWA staff will continue to monitor the reporting of alternative fuels.

8. Native American Fuels

Fuels sold for highway use on Native American reservations are included in the State consumption figures used to attribute Highway Trust Fund receipts to each State. However, States vary as to the extent of information related to highway fuel sales on reservations because of differences in State-Native American tax treaties. State reporters should indicate if there are reservation sales that cannot be quantified.

9. Model Use

The FHWA uses a regression model to estimate State-by-State gasohol consumption, by blend, for a number of States. The model uses gasohol information from selected States that have detailed reporting systems. One issue raised by participants is the possibility that some States may be including gasohol consumption figures with gasoline volumes. If so, adding separate FHWA model estimates of gasohol to a State's figures could result in an overstatement of motor-fuel use.

Ralph Erickson indicated that the FHWA procedures for estimating State gasohol amounts do not result in double counting gasohol. The FHWA will be reexamining the methodology used to combine FHWA gasohol estimates with State-reported data to ensure accuracy of fuel-use data and attribution estimates. The FHWA staff noted that the estimating performance of the current gasohol model will continue to depend upon the quality of the data submitted by States that have significant levels of gasohol use. The FHWA also noted that it was up-dating the current gasohol model.

10. Diesel Fuel Issues

Separate Reporting of Diesel Fuel. Because diesel fuel is now used as an independent factor in the apportionment of Highway Trust Funds to the States, it is increasingly more important to have accurate estimates of diesel fuel use by State. This includes the separation of diesel fuel from the other special fuel categories. More accurate reporting of this data by States that capture this information will provide FHWA with more precise information for estimating the diesel fuel attribution factors.

Public Use of Diesel Fuel. Current FHWA reporting procedures exclude diesel consumption for public use from the motor-fuel volume figures. Although this type of consumption should, in theory, be included in the State estimates of motor-fuel use for statistical and attribution purposes, over half

of the States are not reporting public use of highway diesel fuel. As a result, FHWA is adjusting State reports to remove public use of diesel fuel where it can be identified.

However, States differ in their capabilities to separately report the different components of public diesel fuel consumption. Participants recommended that State representatives be asked if they could provide this level of detail for diesel fuel use. The question will be included on the survey discussed above.

Dyed Diesel Fuel. Under current FHWA reporting guidelines, undyed diesel fuel should be reported under highway diesel motor-fuel consumption on form FHWA-551M if it is sold for private, public-transit or commercial vehicle use. However, there appears to be significant variation in the ability of States to accurately report this information. Participants recommended that the State data reporters be surveyed to identify the availability of data on the use of dyed diesel fuel. In addition, States should carefully describe what types of diesel fuel are being reported for gross volume of diesel fuel (line 1 of form FHWA-551M). FHWA staff can then make necessary adjustments to ensure accurate reporting of consumption data across States.

D. State-FHWA Communications

Different State agencies, including tax and transportation agencies, are typically responsible for reporting data on forms FHWA 551M and 556. As a result, FHWA is concerned about coordination of reporting across State agencies. Participants discussed options for improving communications with State agency staffs. Ralph Erickson noted that FHWA field division offices and resource centers are responsible for ensuring effective coordination with State agencies.

The FHWA Division offices play a key role in working with the State data providers on motor-fuel. That role can be expected to increase as the importance of the data increased. Suggestions for strengthening communications included 1) on-going, informal contacts between State agencies and FHWA division offices, 2) mailings to State agencies inviting staff to attend FHWA seminars, 3) distribution of revised *Guide* and use of FHWA Resource Centers to provide training materials and documentation for State staff, 4) FHWA presentations at FTA Motor Fuel Section and Regional meetings, 5) distribution of meeting notes to FTA and AASHTO for inclusion in newsletters, and 6) establishing a Q & A and Bulletin Board website for distributing information to State agencies.

III. Next Steps

As identified above, Committee members established four Subcommittees to follow up on key issues raised during the meeting: 1) Subcommittee to Review *Guide* Procedures and Definitions, 2) IFTA Reporting Subcommittee, 3) Data Reporting Capabilities Survey Subcommittee and 4) Subcommittee for Highway Trust Fund Attribution Review and Education. FHWA staff will initiate the Subcommittee process. Subcommittees will report back to the full Committee in Summer 1999.

Any final recommendations made by the Motor Fuel Reporting Information Committee that will affect procedures and operating instructions in the FHWA *Guide* will be evaluated by FHWA, and accepted recommendations must be finalized and approved through FHWA's public review process before implementation.

Ralph Erickson distributed a copy of the *Draft Interim Guidance* document to members of the Committee and requested comments on the document before it is formally distributed. The document clarifies some of the reporting issues that were discussed during the Information Committee meeting.

The next full meeting of the Information Committee will be scheduled for later in 1999.

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Attachment A

Motor-Fuel Reporting Information Committee Achieving Quality Results

General - The motor-fuel data provided by the States to FHWA is widely considered to be the most complete and accurate information on highway gasoline and diesel fuel available from any source. These statistics are used extensively by FHWA, the Department of Energy, Federal agencies, States, and others to monitor the demand for petroleum products and the sector distribution for that demand. Because fuel crises can arise quickly and without warning, FHWA has monitored fuel on a monthly basis. Both DOE and FHWA depend on this source of data in times of fuel emergencies. Fuel use is of interest not only in terms of gallons consumed, but also in terms of revenues generated by tax on fuels. Taxes on motor-fuel at both the Federal and State level are a primary source of highway funds. In 1997, Federal and State highway user taxes funded more than 60 percent of the highway program. Motor-fuel taxes account for about three-fourths of that amount. Fuel consumption is also used as a key analytical tool in key transportation and economic indicators such as travel, fleet fuel efficiency etc.

Since FY 1984, motor-fuel data has also been used in the apportionment of Federal-aid highway funds. State-reported highway use of motor-fuel is used to attribute Highway Trust Fund *estimated tax payments* to highway users and *commercial vehicle contributions* to highway users in each State. (Methodology was published in the Federal Register on June 21, 1985 and described in Highway Information Updates of July 29, 1996 and August 10, 1998 - attached).

Under the Transportation Equity Act for the 21st Century (Public Law 105-178) (TEA-21), these data are used in the apportionment of Federal Surface Transportation Program funds, National Highway System funds, Interstate Maintenance funds, and Minimum Guarantee. The following shows the use of these factors in FY 1998:

- Highway Trust Fund payments as a 35 percent STP factor for about \$1.6 billion in FY 1998 funds;
- Diesel fuel used on highways as a 30 percent National Highway System factor for about \$1.2 billion in FY 1998 funds;
- Commercial vehicle contributions as a 33.3 percent Interstate Maintenance factor for about \$1.1 billion in FY 1998.
- Minimum Guarantee which ensures that States receive at least 90.5 percent of their Highway Trust Fund payment was almost \$5.4 billion in FY 1998.

The increased importance attached to this factor suggests that FHWA continue to improve and re-assess its motor-fuel reporting procedures.

Earlier FHWA Improvements - FHWA continuously seeks to improve its data series to reflect the general state-of-the art in data collection and analyses, and to meet evolving demands made on the various data. In anticipation of Federal re-authorization legislation that would make more extensive use of the motor-fuel legislation, FHWA took a number of steps to ensure the quality and consistency of the data. These include several major notices to the FHWA field advising of the possible change, issuance of new guidelines for FHWA field review of State motor-fuel reporting, and sponsorship of three major training sessions which reached more than 100 State data providers and FHWA field staff in 30 locations.

Goals - Based on feedback from the States and FHWA's own analyses, a number of reporting issues have been identified. FHWA, in cooperation with its partners in the States and others, proposed to re-assess its motor-fuel data series with the following objectives in mind:

- Achieve more accurate, consistent, and timely motor-fuel reporting to support Federal fund apportionment and other decision needs;
- Revise FHWA's *Guide to Reporting Highway Statistics (Chapter 2 - "Reports Identifying Motor-Fuel Use and Taxation)* to reflect changes and improvements to the motor-fuel data series;
- Improve the knowledge base of State data providers and FHWA field staff to help them meet FHWA information needs.
- Facilitate dialogue between FHWA and State data providers so that best interests of all are recognized.

Data Issues: FHWA working with the States has identified the a number of issues where discussion and State advice may result in improved instructions and reporting. Those issues identified by FHWA and the States as most important are listed below. This list may be expanded as needed:

Issue: Public Use of Diesel Fuel

Where FHWA would like to be: TEA-21 (Section 1103) provides that 30 percent of National Highway System funds be apportioned on "total diesel fuel used on highways" (Section 1103 b). Thus, a chief purpose of State motor-fuel reporting and FHWA motor-fuel analyses is to develop data (either reported or modeled if needed) on highway use of motor-fuel for publication in its consumption table and for attribution of Federal funds.

Where FHWA is now: While ideally FHWA would include public (government) use of diesel fuels, FHWA has chosen to show only private and commercial diesel fuel in its consumption tables. This is because most States cannot separately identify public use of diesel motor-fuel.

Problem: FHWA's reporting structure is not capturing public use of diesel motor-fuel. Some States may be inadvertently including public use of diesel in their reports to FHWA. Is there a

way to capture public use of diesel in FHWA reports for all States? Do we need to model public use of diesel?

Issue: Losses

Where FHWA would like to be: An important purpose of FHWA motor-fuel analyses is to show an accurate, consistent picture of highway use of motor-fuel for all States net of a losses.

Where FHWA is now: A number of States allow for flat percentage losses of gasoline .Currently, for those States that allow flat percentage for losses, FHWA caps the loss at one percent of gross fuel reported. FHWA does not adjust or modify data for States that do not allow losses. This treatment might allow for minor “advantage” (higher total gallons) to those States that do not allow losses.

Problem: Two issues exist. Internal to FHWA, should we allow for losses? If yes, what percentage should be allowed?

Issue: Alternative Fuels

Where FHWA would like to be: FHWA would like to be able to recognize the highway use of motor-fuels associated with various alternative fuels such as liquefied petroleum gases (LPG), liquefied natural gases (LNG), and compressed natural gas (CNG).

Where FHWA is now: Currently, many States provide for the issuance of decals to vehicles that use alternative fuels. While receipts associated with these decals are reported on FHWA-556, no “credit” for highway use is shown in FHWA consumption tables.

Problem: Can highway use of alternative fuels be captured?

Issue - Definition of diesel fuel

Where FHWA would like to be - If diesel fuel becomes a direct legislative apportionment factor, FHWA would like to be able to have “clean” diesel motor-fuel data.

Where we are now - Historically, FHWA has allowed States to report receipts for diesel fuel together with the receipts for small amounts of “other special fuels” (This may include LPG, propane etc.) terming the combined total “special fuels”. Because the amounts of “other special fuels” is estimated to be very small (about 2 percent) and many States cannot separately identify “other special fuels”, FHWA has administratively determined that “special fuels” are the same as “diesel fuel”. Any other interpretation of terms would not be workable, or would impose an impossible burden on may States reporting data.

Problem - What type of effort would be needed to disaggregate the special fuels from the diesel data?

Issue: Indian Reservations

Where FHWA would like to be: FHWA would like gasoline motor-fuel sold on Indian reservations to be reported along with other motor-fuel sold in State.

Where FHWA is now: Currently, several States have problem with Indian reservations where no treaty exists between the State and the Indian tribe. The associated gallons and revenues are not reported to FHWA.

Problem: States without treaties are not able to report Indian Reservation use.

Issue : IFTA

Where FHWA would like to be: FHWA would like States to correctly report IFTA gallons (motor-fuel gallons and receipts based on use rather than where purchased) in a timely and consistent manner.

Where FHWA is now: It is not clear that all States are making appropriate adjustments to their FHWA motor-fuel reporting based on IFTA.

Problem: FHWA needs to educate states on the importance of incorporating IFTA data into their FHWA reports.

Other:

Other issues not discussed above include timeliness of reporting, military use of motor-fuel, estimations, exempt and refunded fuels, and cross border purchases of fuel (tax avoidance).

FHWA recognizes its partnership responsibilities to State data providers with respect to training, soft-ware, and instructions -- and will seek to work with this Committee to advance the quality of the data reported.

Attachment B

Highway Information Update

Vol. 3 No. 1

August 3, 1998

HIGHWAY INFORMATION UPDATE

Federal Highway Administration

Office of Highway Information Management

TEA-21 and Estimation of Highway Trust Fund Tax Receipts Attributable to Highway Users in Each State

To a far greater degree than before, the Transportation Equity Act for the 21st Century (TEA-21)(Public Law 105-178) makes use of estimated Highway Account of the Highway Trust Fund (HTF) “receipts attributable to highway users in each State” (commonly referred to as “trust fund contributions”) to apportion Federal-aid highway funds to the States.

TEA-21 calls for the use of trust fund contributions in apportioning 35 percent of the Surface Transportation Funds. One-third of Interstate Maintenance funds are distributed based on Highway Account contributions by commercial vehicles, that is contributions resulting from diesel fuel tax, truck tire tax, truck and trailer retail sales tax, and the heavy vehicle use tax. Highway Account contributions are also used in the computation of the Minimum Guarantee. The States shares of certain apportionments specified in TEA-21 are adjusted annually to ensure that each State receives at least 90.5 percent of its percentage contributions to the Highway Account.

Given the increased importance of estimated Highway Account of the Highway Trust Fund (HTF) receipts attributable to highway users in each State as a formula factor, FHWA is again sharing its attribution methodology with the States and others. These procedures were published in a 1985 Federal Register notice and later, summarized in a Highway Information Update (Volume 1. No. 2, July 29,1996).

It is a surprise to many that the contributions to the HTF are not available from the Internal Revenue Service (IRS). The fuel taxes, which make up over 80 percent of the HTF’s receipts, are imposed when the fuel is first removed from bulk storage and the tax is paid by the seller. Thus, the typical Federal fuel taxpayer is an oil company. If HTF contributions were determined using the information on the tax returns, over half of the gasoline tax receipts would be credited to just three States--Texas, New York, and Pennsylvania--where major oil companies have their headquarters. The truck tire tax receipts are concentrated in Ohio, the home of the U.S. tire industry, and the tax on truck and trailer chassis is paid by the seller. While paid initially by a company, the costs of these taxes become part of the purchase price of the products and are ultimately paid by the highway user. The heavy vehicle-use tax is the only Federal highway-user tax paid directly to the IRS by the vehicle owner, and

even then, the return captures only the business address of the owner, not the State or States where the vehicle is operated.

As tax records do not yield the desired information, FHWA estimates the HTF contributions from highway users in each State. The method for attributing Trust Fund receipts to each State has changed over time. When FHWA first started making the estimates, it was in response to general interest in donor-donee issues. With the passage of the Surface Transportation Assistance Act of 1982, the attribution of HTF receipts became a factor in calculating the 85-percent minimum allocation. FHWA solicited comments from the States on its methodology and modified it to reflect the concerns of the States and the Congress that the attribution employ use-based factors. The resulting methodology, first used to attribute fiscal year 1984 Trust Fund receipts, was published in the Federal Register on June 21, 1985. These procedures, summarized below, have been in use since that time.

The Department of the Treasury reports the tax receipts deposited in the HTF for each tax type. The net receipts, after refunds and transfers, are the contributions to the HTF that are attributed to the highway users in each State. These U.S. totals are prorated among the States based on the factors shown in Table 1. The basic premise is that the Federal gasoline tax receipts to the Highway Account are received from each State in proportion to the highway use of gasoline in each State compared to the total use in all States. Simply put, if Alabama used 2 percent of all highway gasoline in the United States, then 2 percent of the Federal gasoline tax deposited in the Trust Fund is assumed to come from highway users in Alabama.

Commercial vehicle contributions -- diesel fuel tax, truck tire tax, truck and trailer retail sales tax, and the heavy vehicle use tax are attributed to the States using highway use of diesel and special fuels (Special fuels are very small amounts). This method is considered to be the best available proxy for truck use in each State. Table 2 shows an example of the calculation for a single State to further illustrate the concept.

Table 1
Factors for Attributing Highway Trust Fund Receipts to Highway Users in Each State

Tax	Attribution Factor ¹
Gasoline	Ratio of highway use of gasoline (excluding gasohol) in each State to highway use of gasoline in all States.
Gasohol	Ratio of highway use of gasohol in each State to highway use of gasohol in all States.
Diesel and Special Fuels	Ratio of highway use of diesel and special fuels in each State to highway use of diesel and special fuels in all States.
Truck and Trailer Sales Truck Tires Heavy Vehicle Use	Ratio of highway use of diesel and special fuels in each State to highway use of diesel and special fuels in all States.

¹ Highway use of gasoline is derived by the FHWA from reports from State fuel tax agencies. The FHWA estimates gasohol using State-supplied data, along with information from IRS, the Department of Energy, and the ethanol industry. Beginning January 1, 1993, Federal law defines three types of gasohol each with a different tax rate--10-percent gasohol (the traditional 10-percent fuel alcohol, 90-percent gasoline blend), 7.7-percent gasohol and 5.7-percent gasohol. The volumes of each are estimated and weighted based on their tax contributions to give a 10-percent equivalent volume. Highway use of diesel and special fuels is reported by the States from the records of their fuel tax agencies. The diesel and special fuels volume reflects the adjustments made to reflect use in the State rather than purchases in the State and excludes non-highway uses such as aviation gasoline, marine fuel, agriculture, industrial and commercial, and other special uses.

Table 2
Sample Illustration of Attribution of Trust Fund Receipts for Alabama

Tax Type	1996 U.S. Total Highway Account Tax Receipts (\$000)	1995 Highway Fuel Use ¹ (Thousands of Gallons)			Attributed Receipts (\$000)
		U.S. Total	Alabama	Percent of U.S. Total	
Gasoline	13,142,896	104,432,608	2,069,175	1.981	260,407
Gasohol ²	776,711	13,092,585	214,205	--	--
Gasohol ²	776,711	15,055,233	214,205	1.422	11,051
Diesel and Special Fuels	4,963,166	26,308,696	696,427	1.891	131,382
Truck and Trailer Sales ³	1,878,863	26,308,696	696,427	1.891	49,736
Truck Tires ³	532,352	26,308,696	696,427	1.891	14,092
Heavy Vehicle Use ³	739,878	26,308,696	497,583	1.891	19,586
Total	22,033,866	143,833,889	2,217,456	-	486,254

¹ The fuel use data used for attribution is the latest verified data available, which generally means that there is a 1-year lag between the Trust Fund receipts and the fuel use data used to attribute them.

² The gasohol shown on first gasohol line is estimated gallonage and on second line is the total volume 10-percent equivalent of the three different types of gasohol defined in Federal law.

³ The fuel volume shown is for diesel and special fuels.

The Office of Highway Information Management publishes a number of tables on this and related topics in its annual *Highway Statistics*. Included are Federal-aid apportionment formulas (table FA-4A), apportionments (Table FA-4), allocations (Table FA-4D), the attribution of Highway Trust Fund receipts (Table FE-9), the fuel volumes used in the attribution process (Table MF-27) and a comparison of attributed highway account receipts to apportionments and allocations (Table FE-221). Questions on these topics may be directed to Ralph Erickson, HPM-10, at 202-366-9235.

