Department of Planning and Budget
2005 Fiscal Impact Statement

1. **Bill Number:** HB 1636

House of Origin	☒ Introduced	☐ Substitute	☐ Engrossed
Second House	☐ In Committee	☐ Substitute	☐ Enrolled

2. **Patron:** Cole

3. **Committee:** Appropriations

4. **Title:** Disposition of motor vehicle rental tax revenue

5. **Summary/Purpose:**

Under current state law, a ten percent tax is levied on the proceeds from the daily rental of motor vehicles. The revenue generated by this tax is to be distributed as follows:

- 4 percent—Returned to the county, city, or town in which the motor vehicle was delivered by the person renting it.
- 2 percent—Debt service on bonds issued by the Virginia Public Building Authority for the Statewide Agncies Radio System (STARS), being built by the Virginia State Police.
- 1 percent—Transportation Trust Fund.
- 3 percent—By statute, used to pay some of the expenses of the Department of Motor Vehicles. However, in previous years, the Appropriation Act has directed that this revenue be deposited in the general fund.

The proposed legislation would require that all the revenue collected from the rental motor vehicle tax be deposited into the Transportation Trust Fund (TTF).

6. **Fiscal impact:** Preliminary. See Item 8.

7. **Budget amendment necessary:** Yes.

8. **Fiscal implications:**

The proposed legislation would have the following fiscal implications:

General fund—A two percent tax is now levied on motor vehicle rentals and the revenue is designated to be used as debt service for STARS. To facilitate implementation of this provision, the introduced budget directs that the revenue be deposited in the general fund and includes the STARS debt service in its general fund appropriation for debt service. Therefore, because the proposed legislation directs that all motor vehicle rental tax revenue be deposited in the TTF, it would result in a decrease in general fund revenue equivalent to the revenue generated by the two percent tax. According to Department of Taxation projections, those general fund losses would be as follows:

FY 2006—$15.5 million
FY 2007—$15.8 million
FY 2008—$16.1 million
FY 2009—$16.4 million
FY 2010—$16.8 million

Therefore, if this bill were enacted into law, anticipated general fund revenues for FY 2006 would be reduced by $15.5 million. To make up for this loss in general fund revenue in the second year of the current biennium, the General Assembly could take one of two courses of action. If the legislature were to assume that the provisions of this bill were to be in addition to the provisions of the introduced budget bill, then it would need to reduce overall general fund appropriations for FY 2006 by a comparable $15.5 million.

The second alternative would not involve a reduction of general fund appropriations. In the introduced bill, the Governor proposed a one-time appropriation of $350 million in general fund dollars for transportation. The General Assembly could assume that the $350 million general fund appropriation for transportation included the $15.5 million from motor vehicle rental tax revenue that would be diverted from the general fund to the TTF under the provisions of this legislation. Under that assumption, transportation would still receive $350 million from the general fund this biennium and FY 2006 general fund appropriations would not have to be reduced. In effect, under this scenario, the one-time general fund appropriation would be $334.5 million.

In future biennia, however, the proposed legislation would have a significant impact on the general fund budget. Because the $350 million general fund appropriation for transportation purposes proposed for the current biennium is intended to be only a one-time appropriation, the loss by the general fund of the revenue from motor vehicle rental taxes to the TTF would have to be offset by comparable reductions in general fund appropriations. Already, preliminary projections of general fund revenues and projected spending needs through FY 2010 indicate that revenues will barely meet those needs. For example, it is currently projected that FY 2007 revenue will fall almost $200 million short of what will be needed. The diversion of general fund revenue to the TTF that would result from this bill would exacerbate the problem of balancing future general fund budgets. The projected general fund deficit balance in FY 2007 could be almost $215 million.

Transportation funding—The introduced budget appropriates the revenue from the three percent tax on motor vehicle rentals in FY 2006 to a newly-created Rail Partnership Fund. For the purposes of this fiscal impact statement, it is assumed that this Fund would have continued to receive these revenues in future fiscal years. The proposed legislation would have those revenues deposited into the TTF instead, thus depriving the Rail Partnership Fund of a dedicated source of revenue.

Local governments—Under the proposed legislation, counties, cities, and towns would lose the revenue that is generated by a four percent tax on motor vehicle rentals and returned to them. According to Department of Taxation projections, these losses in disbursements to local governments would be as follows:

FY 2006—$31.0 million
FY 2007—$31.6 million
FY 2008—$32.2 million
FY 2009—$32.9 million
FY 2010—$33.5 million

9. Specific agency or political subdivisions affected:

All general fund agencies
Department of Transportation
Department of Rail and Public Transportation
Department of Aviation
Virginia Port Authority
Counties, cities, and towns

10. Technical amendment necessary: None.

11. Other comments: None.

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cc: Secretary of Finance
Secretary of Transportation