Department of Planning and Budget
2009 Fiscal Impact Statement

1. **Bill Number:** SB1498

   House of Origin _X_ Introduced ___ Substitute ___ Engrossed

   Second House ___ In Committee ___ Substitute ___ Enrolled

2. **Patron:** Barker

3. **Committee:** Finance

4. **Title:** **Fuels taxes; percentage of wholesale cost.**

5. **Summary:** This bill replaces the current fuels tax on gasoline, gasohol, and diesel fuel with a tax that is a percentage of the wholesale price of a gallon of self-serve unleaded regular gasoline. The percentage shall be established by the Commissioner by determining the percentage that would most closely yield seventeen and one-half cents per gallon, based on the average wholesale price of a gallon of self-serve unleaded regular gasoline for the period beginning October 1, 2008, and ending March 31, 2009.

6. **Fiscal impact estimates:** Indeterminate. See Item #8.

7. **Budget amendment necessary:** Yes, Item 455.

8. **Fiscal implications:** The revenue generated by the tax proposed in this bill could be either higher or lower than the revenue generated by the current tax, even though the bill requires the percentage rate of the tax to be set so that initially it will be equivalent to 17.5 cents per gallon. The revenue actually generated would depend upon two factors:

   - <u>The baseline price used to fix the rate at which fuels would be taxed beginning January 1, 2010</u>. The bill proposes dividing the current per-gallon tax of 17.5 cents by a six-month average price for a gallon of fuel, and then making the result the percentage rate at which fuels will be taxed going forward. It is critical to note that the percentage rate that is calculated from the 6-month base period would be permanently fixed going forward. Thus, if the six-month average price per gallon were $1.75, the tax rate beginning on January 1, 2010, would be 10%. If the six-month average price were $3.50, the new tax rate would be 5%. The difference between these two tax rates would affect fuels tax revenue by hundreds of millions of dollars.

   - <u>The average price of fuel at each subsequent rate adjustment</u>. The volatility of motor fuels prices would create an extremely variable revenue stream after the tax rate has been fixed. If fuels prices doubled, fuels tax revenue would double (assuming no changes in consumption). If prices fell, revenue would fall correspondingly. The Commonwealth's ability to forecast fuels tax revenue would only be as good as the ability to predict what fuels prices will be in the future. For example, if the tax rate is 5% based on an average of $3.50 per gallon, but the average price per gallon drops six months later to $2.00, then fuels tax revenue for the six-month period would drop by $0.075 per gallon of gasoline or 43%.

The impact on expenditures is also indeterminate. It is anticipated that the changes proposed in this bill would cost the Department of Motor Vehicles (DMV) $29,030 to implement. However, the bill would also require the agency to set fuels tax rates based on average self-service retail prices for specific fuel types over specific periods of time. DMV would incur some costs to acquire average fuel price data. The cost is unknown at this time. The leading and potentially sole supplier of statistical data of this nature is the Oil Price Information Service (opisnet.com). Contact with this company reveals that data are not available for self-service versus full-service retail prices. At this point, DMV has been unable to identify a source for this information.

9. **Specific agency or political subdivisions affected:** Department of Motor Vehicles, Virginia Department of Transportation.

10. **Technical amendment necessary:** No.

11. **Other comments:** None.

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cc: Secretary of Transportation