Department of Planning and Budget
2010 Fiscal Impact Statement

1. **Bill Number:** SB223

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, 2009, and ending March 31, 2010.

6. **Fiscal impact estimates:** Preliminary.

6a. Expenditure impact:

Fiscal Year	*Dollars*	*Positions*	*Fund*
2010	-	-	-
2011	$19,770	-	NGF
2012	-	-	-

6b. Revenue impact:

Fiscal Year	*Dollars*	*Fund*
2010	-	-
2011	$77,200,000	NGF
2012	$292,400,000	NGF
2013	$398,400,000	NGF
2014	$519,600,000	NGF
2015	$654,000,000	NGF
2016	$772,600,000	NGF

7. **Budget amendment necessary:** Yes, Item 452.

8. **Fiscal implications:** A one-time expenditure impact of $19,770 would be incurred by the Department of Motor Vehicles to implement the provisions of this legislation. In addition, the agency would have to make ongoing but undetermined expenditures to calculate semiannual changes in the tax rate and to communicate rate changes to taxpayers. The agency believes that it would be able to absorb this cost.

   The estimated revenue impact has been calculated by the Department of Taxation and is based on fuel consumption estimates contained in the December 2009 Commonwealth

Transportation Fund forecast and on fuel price forecasts contained in the U.S. Energy Information Administration's Long-Term Energy Outlook for December 2009. It should be noted, however, that 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 generated would depend upon two factors:

- The baseline price used to fix the rate at which fuels would be taxed beginning January 1, 2011. 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 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, 2011 would be 10 percent. If the six-month average price were $3.50, the new tax rate would be 5 percent. The difference between these two tax rates would affect fuels tax revenue by hundreds of millions of dollars.

- The average price of fuel at each subsequent rate adjustment. 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 our ability to predict what fuels prices will be in the future. For example, if the tax rate is 5 percent 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 percent.

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

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

11. **Other comments:** This bill could raise fuels tax revenue, as well as increase the tax liabilities of those entities that pay the fuels tax. Some consideration may be given to increasing the current statutory provisions regarding the security (bond or certificate of deposit) required from taxpayers pursuant to Va. Code §§ 58.1-2211 and -2246.

Date: 1/21/10/jlv
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cc: Secretary of Transportation