

Department of Planning and Budget

2011 Fiscal Impact Statement

1. Bill Number: HB1413

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

2. Patron: Scott, J.M.

3. Committee: Finance

4. Title: Motor fuels tax rate; converts rate of taxation from cents per gallon to a percentage rate.

5. Summary: This bill converts the rate of taxation on motor fuels from cents per gallon to a percentage rate. The bill provides that the Commissioner of the Department of Motor Vehicles shall calculate the percentage rate in an amount that will most closely yield the amount of cents per gallon being charged on the applicable motor fuel prior to the effective date of the bill. Thereafter, the percentage rates would not change, but would be applied against the average price per gallon of the fuel, less federal and state taxes, as determined by the Commissioner of the Department of Motor Vehicles over rolling six-month periods, to determine the cents to be charged.

6. Budget Amendment Necessary: Yes, Item 453.

7. Fiscal Impact Estimates: Preliminary.

7a. Expenditure Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2011	-	-	-
2012	\$10,250	-	NGF
2013	-	-	-

7b. Revenue Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2011	-	-
2012	\$39,800,000	NGF
2013	\$184,000,000	NGF
2014	\$240,200,000	NGF
2015	\$273,400,000	NGF
2016	\$313,100,000	NGF

8. Fiscal Implications: The Department of Motor Vehicles (DMV) would incur an estimated one-time cost of \$10,250 (including expenses incurred by the agency's vendor) to implement the provisions of this legislation. In addition, the agency would have to make ongoing but

undetermined expenditures to calculate the new tax rate each year and communicate that information to taxpayers. The agency would absorb this cost within existing resources.

The estimated revenue impact has been calculated by the Department of Taxation and is based on fuel consumption estimates contained in the December 2010 Commonwealth Transportation Fund forecast and on fuel price forecasts contained in the U.S. Energy Information Administration's Short-Term Energy Outlook for December 2010 and Long-Term Energy Outlook for December 2009. The revenue impact in FY 2012 represents a five month effect of the proposed tax changes.

It should be noted 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 a tax percentage per gallon that equates to the current \$0.175. One important variable is the baseline price used to fix the rate at which motor fuels would be taxed beginning January 1, 2012. The bill proposes dividing the current per-gallon tax of \$0.175 by a six month average price for a gallon of fuel, and then making the result the percentage rate at which motor fuels will be taxed going forward. It is critical to note that the percentage rate that is calculated from the six month base period would be permanently fixed going forward.

Exclusive of federal and state excise taxes, the average current wholesale price for gasoline has been estimated at \$2.64 per gallon. With implementation of this bill changing the tax from cents per gallon to percentage of price, if the average wholesale price drops below \$2.64 per gallon, the Commonwealth will receive less revenue than at today's tax rate of \$0.175 per gallon. Furthermore, 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 its 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: None.

Date: 1/17/11

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cc: Secretary of Transportation