

Department of Planning and Budget 2009 Fiscal Impact Statement

1. Bill Number: HB1661

House of Origin X Introduced Substitute Engrossed
Second House In Committee Substitute Enrolled

2. Patron: Scott, J.M.

3. Committee: House Finance

4. Title: **Motor fuels tax; converts rates to percentage that shall be calculated by DMV Commissioner.**

5. Summary: This bill converts the rates of taxation on motor fuels from cents per gallon to percentage rates. The percentage rates shall be calculated by the Commissioner of the Department of Motor Vehicles 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 per gallon to be charged.

6. Fiscal impact estimates: Indeterminate. See #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 a tax percentage per gallon that initially equates to the current \$0.175. One variable is the baseline price used to fix the rate at which motor fuels would be taxed beginning January 1, 2010.

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 would 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 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. Furthermore, the volatility of motor fuels prices could 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.

The impact on expenditures is also indeterminate. The cost to the Department of Motor Vehicles (DMV) for implementation of the changes proposed in the bill is estimated at \$19,800. 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. This 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. Another source for this information has not yet been identified.

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