Department of Planning and Budget
2010 Fiscal Impact Statement

1. **Bill Number:** HB1153

   House of Origin _X_ Introduced ___ Substitute ___ Engrossed

   Second House ___ In Committee ___ Substitute ___ Enrolled

2. **Patron:** Scott, J.M.

3. **Committee:** Finance

4. **Title:** **Motor fuels tax**

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 to be charged.

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

   6a. Expenditure impact:

Fiscal Year	*Dollars*	*Positions*	*Fund*
2010	-	-	-
2011	$19,370	-	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:** The Department of Motor Vehicles (DMV) will incur a one-time expenditure estimated at $19,370 (including expenses incurred by the agency's vendor) to programmatically 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 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 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, 2011. 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 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 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 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:** Because this bill could raise fuels tax revenue, it could also increase the liabilities of those entities who pay the fuels tax; consequently, 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.

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cc: Secretary of Transportation