

Department of Planning and Budget

2016 Fiscal Impact Statement

1. Bill Number: SB244

House of Origin	<input checked="" type="checkbox"/> Introduced	<input type="checkbox"/> Substitute	<input type="checkbox"/> Engrossed
Second House	<input type="checkbox"/> In Committee	<input type="checkbox"/> Substitute	<input type="checkbox"/> Enrolled

2. Patron: Petersen

3. Committee: Finance

4. Title: Local fuels tax

5. Summary: This bill authorizes localities to impose a local fuels tax, not to exceed five cents per gallon of fuel. The tax would be paid by the distributor at the point of sale to a retail distributor in the same manner as regional fuel taxes. The Commonwealth would make an annual payment to localities for the difference between revenues that were collected from the tangible personal property tax on vehicles, including personal property tax relief, and the amount of revenues collected by a five-cents-per-gallon fuels tax. The bill also repeals the personal property tax relief program. The bill has a delayed effective date of January 1, 2019, and is contingent on passage of a constitutional amendment making motor vehicles used for nonbusiness purposes exempt from taxation.

6. Budget Amendment Necessary: Not at this time, due to the delayed effective date of January 1, 2019.

7. Fiscal Impact Estimates: Preliminary. See Item #8.

8. Fiscal Implications: In the budget for the 2018-2020 biennium, appropriation will be required for the Department of Motor Vehicles (DMV) to hire the additional staff needed to implement the legislation. DMV will incur \$80,000 in costs in FY 2019 to make the systems changes necessary to implement the provisions of this legislation regarding the local tax on fuel. Assuming that all localities exercise the option to impose the tax, DMV will require nine additional staff and appropriation for program administration. Beginning January 1, 2019, \$307,465 will be required for FY 2019 and \$614,929 annually thereafter. Administration of the tax will not have a revenue impact for the agency. The repeal of the tangible personal property tax on motor vehicles is not expected to have a significant impact on DMV's expenditures or revenues.

Virginia currently disburses \$950 million from the general fund annually to localities for personal property tax relief on vehicles. The amount has been capped since 2006. Under this proposal, localities would be reimbursed by the Commonwealth for the difference between the amount of personal property tax revenues that had been certified to have been received and the revenues generated for the localities by the local fuels tax. Assuming that all localities exercise the option to impose the tax at the \$0.05 rate, the \$950 million currently disbursed from the general fund for personal property tax relief would be offset by the amount collected. However, a repeal of the personal property tax on motor vehicles would

also eliminate that portion of the tax currently collected directly by localities, which would also need to be reimbursed by the Commonwealth. The chart below illustrates the additional state reimbursement required on top of the current \$950 million.

(in \$ millions)				
	Personal Property Tax on Qualifying Vehicles	\$.05 Cent Local Motor Fuels Tax	Total State Reimbursement	Additional State Reimbursement Required
FY 2019*	1,044.2	112.1	932.2	457.2
FY 2020	2,163.6	273.8	1,889.9	939.9
FY 2021	2,241.5	277.5	1,964.0	1,014.0
FY 2022	2,322.2	280.6	2,041.6	1,091.6

*Given the effective date of January 1, 2019, the revenue impact is calculated by dividing the total personal property tax by two, using five months of a local motor fuels tax, and taking half of the PPTRA current law state reimbursement.

Since there is a Constitutional amendment requirement presented in this legislation, there is also a financial impact on the Department of Elections. § 30-19.9, Code of Virginia, requires the Department of Elections to run advertisements in state newspapers and prepare posters and pamphlets providing public notice about constitutional amendments. The estimated one-time cost relating to one amendment is \$131,158, which is based on the cost of advertising and printing for proposed 2014 constitutional amendments. This amount consists of approximately \$129,403 in newspaper advertising costs and \$1,755 for printing costs of pamphlets and posters.

9. Specific Agency or Political Subdivisions Affected: Department of Motor Vehicles; counties, cities and towns, Department of Elections.

10. Technical Amendment Necessary:

- As currently written, the final paragraph of § 46.2-2099.50 (B) provides that a personal vehicle used to transport passengers through a transportation network company (e.g., Uber, Lyft) is presumed to be used for nonbusiness purposes, but *only for the purpose of determining whether it is eligible for relief from the tangible personal property tax*. This legislation retains the presumption of nonbusiness use, but eliminates the limited purpose of that presumption. Unless this was the intended result, consideration should be given to simply eliminating the presumption altogether.
- The bill allows localities to set different rates for the tax on fuel, with the proviso that the rate may not exceed five cents per gallon. Although this language suggests that the tax will be levied at a cents-per-gallon rate (like the fuels tax in Chapter 22 of Title 58.1) rather than as a percentage of the sales price (like the fuels sales tax in Chapter 22.1 of Title 58.1), it may be advisable to stipulate that this will be a cents-per-gallon tax.

11. Other Comments: None.

Date: 1/19/16

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c: Secretary of Transportation