

Vermont Legislative Joint Fiscal Office

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FISCAL NOTE

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H.488 FY-2016 Transportation Plan as introduced by the Senate Transportation Committee -
Analysis of Sec. 23 Transportation Infrastructure Bond Fund floor

Summary

Sec. 23 of H-488 as introduced by the Senate Transportation Committee establishes a floor, a minimum, for the Transportation Infrastructure Bond Fund (TIB Fund) assessment of 3.96 cents per gallon. This amount is equal to the TIB assessment that is currently being collected during the April–June 2015 quarter. Based on the assumptions of the January 2015 consensus revenue forecast, this floor will not generate any new revenue in FY-2016. If, however, actual retail gasoline prices as surveyed by the Public Service Department average less than \$2.47 during a calendar quarter, in the following quarter the TIB assessment would be higher than it would be under current law.

Background

23 V.S.A. § 3106 levies a 2% assessment on the tax-adjusted retail price of gasoline which is deposited in the TIB Fund. By tax-adjusted is meant the levy is assessed on the retail price of gasoline excluding all state and federal taxes, fees and assessments of whatever nature.

To simplify collection the assessment is collected at the wholesale level so while the assessment is price based, it is not levied on the current price a consumer is actually paying at the pump. Under current law, the system works as follows:

- (1) The Vermont Public Service Department (PSD) surveys Vermont retail gasoline prices and publishes an average price each month.
- (2) At the end of each calendar quarter, Vermont DMV, using the PSD data, determines the average retail price for the quarter.
- (3) From the average quarterly retail price, DMV subtracts all the state and federal taxes, fees and assessments that applied to and were collected from wholesalers during the quarter.
- (4) DMV then multiplies the tax adjusted price by the 2% TIB assessment to produce a fixed cent-per-gallon amount.
- (5) DMV then adds together the state fixed cent-per-gallon gasoline tax, the 1 cent petroleum clean up fee, the 2% TIB assessment reduced to a fixed cent-per-gallon amount, the 4% Transportation Fund assessment which is likewise reduced to a fixed cent-per-gallon amount and the federal fixed cent-per-gallon gasoline tax and notifies all wholesalers of the total fixed cent-per-gallon amount that will be levied on all wholesale sales of gasoline during the next calendar quarter.

Thus at all times, assuming 100% pass-through, consumers are paying a fixed cent-per-gallon TIB assessment which is equal to 2% of the average retail tax adjusted price of gasoline that prevailed during the prior calendar quarter. This is the so-called “look back” system.

The fiscal analysis is presented in 6 tables as described below. In describing the revenue projections, the abbreviations used make two distinctions: (1) between “Forecast” and “Scenario” and (2) between “CL” and “NT”.

“Forecast” means the January 2015 consensus forecast assumptions regarding retail gasoline prices and consumption during FY-16 are used. “Scenario” means the analysis assumes retail prices that vary from the forecast. For all the analyses the forecast assumptions about gasoline consumption are used.

“CL shows the revenue that would be generated under current law. “NT”, short for New Tax, shows the revenue that would be generated assuming a TIB floor of 3.96 cents per gallon.

Thus:

Forecast-CL = the revenue generated under current law under the assumptions of the consensus forecast, i.e. the revenue for FY-16 that spending authority in the Transportation bill must not exceed unless the legislature approves of a change in current law (a “NT”) that, under the assumptions of the consensus forecast, would generate new revenue equal to the difference.

Scenario-CL = the revenue generated under current law on the price assumptions of the scenario that vary from the forecast.

Forecast-NT = the revenue generated assuming a TIB floor of 3.96 cents under the price assumptions of the consensus forecast.

Scenario-NT = the revenue generated assuming a TIB floor of 3.96 cents on the price assumptions of the scenario that vary from the forecast.

And:

Forecast-NT vs Forecast-CL = the revenue generated assuming a TIB floor of 3.96 cents minus the revenue generated under current law, both under the assumptions of the consensus forecast. If positive, the amount would constitute new FY-16 revenue.

Scenario-CL vs Forecast-CL = the revenue generated under current law assuming the scenario price minus the revenue projected in the consensus forecast = the deficit or surplus that would result in the FY16 budget if the price assumed in the scenario actually occurred.

Scenario-NT vs Forecast-CL = the revenue generated assuming a TIB floor of 3.96 cents and the retail price assumed in the scenario minus the revenue projected in the consensus forecast = the deficit or surplus that would result in the FY16 budget if the TIB Floor were enacted and the retail price assumed in the scenario actually occurred.

Scenario-NT vs Scenario-CL = the revenue generated assuming a TIB floor of 3.96 cents and the retail price assumed in the scenario minus the revenue generated under current law at the scenario price = in terms of the scenario prices assumed, namely prices below \$2.47, both the revenue assuming a TIB floor and the revenue under current law would result in an FY-16 budget deficit but the deficit with the TIB floor would be less than the deficit under current law.

Table 1 “Consensus Forecast” - Shows the projections of quarterly retail gasoline prices and gasoline consumption that form the basis of the January 2015 forecast of FY-16 revenue along with the resulting projections of the TIB assessment and TFund assessment that would be collected each quarter and the revenue each will generate.

As shown the consensus forecast projects that retail gasoline prices will average \$2.70 per gallon during the relevant period. This figure is the average of the projected quarterly retail price from the 2d calendar quarter of 2015 (Q2-2015) through the 1st calendar quarter of 2016 (Q1-2016) each weighted by the projected gasoline consumption in the succeeding quarter. The calculation is done this way because of the look back system. For example, during the first FY-2016 quarter (July-Sep 2015), the relevant retail price that determines the actual assessments applicable during the quarter is the quarterly average price that prevailed during the prior quarter while the revenue is a function of the assessments and projected gasoline consumption during the quarter. For the same reason, while the projected retail price of \$3.03 in the final April-June quarter of FY-16 will determine the assessments applicable in the first quarter of FY-17, it has no impact on the assessments or revenue projected in the final quarter of FY-16.

Table 2 “Forecast with Floor” – Shows the revenue that would be generated under the price and consumption assumptions of the consensus forecast assuming a TIB floor of 3.96 cents a gallon. As shown, at no time does the projected TIB assessment fall below the floor and no new revenue is generated.

Table 3 “Price Floor Analysis” – The “Price Floor Analysis” shows that if, starting in the current April-June 2015 quarter, retail gasoline prices remained at a constant \$2.47 a gallon the resulting 2% TIB assessment under current law would converge, in fixed cent-per-gallon terms, to 3.96 cents, equal to the floor set in H-488. This \$2.47 a gallon can be viewed as the price point where the proposed floor would become applicable – when quarterly prices are above \$2.47 the 2% TIB assessment would be higher than 3.96 cents and when quarterly price are below \$2.47 the 2% TIB assessment would be lower, without a floor, than 3.96 cents.

The above statement must be qualified due to the unique features of the system. Because of the look back system and the fact that the tax base is the quarterly retail price excluding all taxes, fees and assessments, that means the assessments collected during a quarter (based on the prior quarter’s average price) are variables in the calculation of the assessments that will be collected in the succeeding quarter. To determine what the assessments would be at a given retail price, one must go back in time to a quarter when the retail price and the assessments are known and then work forward given the retail prices in between. This also means that a certain quarterly average retail gasoline price is not uniquely associated with a fixed TIB assessment in cents-per-gallon terms. When retail prices are volatile, a quarterly

price of \$2.47 will not necessarily produce a TIB assessment of 3.96 cents for the next quarter but it would be close and if the retail price remained constant the TIB assessment would eventually converge to 3.96 cents.

Table 4 “Hypo Price – Current Law” – This table shows the revenue that would be generated in FY-16 under current law assuming a hypothetical price – here \$2.00 a gallon starting in calendar Q2-2015. As shown if gasoline prices actually averaged \$2.00 a gallon during FY16, TIB revenue would come in \$4.4 million below the consensus forecast.

Table 5 “Hypo Price with Floor” – This table repeats table 4 with the difference that a TIB floor of 3.96 cents per gallon is assumed to be in place throughout FY-16. As shown, with the TIB floor and gasoline at \$2.00, while TIB revenue would still run \$1.4 million below the consensus forecast (Scenario-NT vs Forecast-CL), revenue with the floor would be \$2.9 million higher than under current law (Scenario-NT vs Scenario CL).

Table 6 “Scenario Summary” – This table summarizes the results of the Table 5 “Hypo Price with Floor” model at different hypothetical gasoline prices between \$2.47 and \$2.00 a gallon. The last row “Change in total taxes vs Curr Law” shows the impact of the floor relative to current law. Thus if retail gasoline averaged \$2.00 a gallon for a quarter, the following quarter, assuming 100% pass-through, consumers would pay an extra 9/10ths of a cent per gallon in state levies compared to current law. As quarterly average prices rise above \$2.00 a gallon, this additional levy gets smaller and smaller until at \$2.47 a gallon it disappears. At prices higher than \$2.47, consumers would pay the same state levies as under current law.

Table 1: Consensus Forecast	Jan-Mar 2015	Apr-Jun 2015	Jul-Sep 2015	Oct-Dec 2015	Jan-Mar 2016	Apr-Jun 2016	FY16 Avg /Tot	
Qtrly Avg retail gas - Kavet	\$2.4000	\$2.5600	\$2.6800	\$2.7400	\$2.8300	\$3.0300	\$2.70	Wgt Q215-Q116
Federal tax	\$0.1840	\$0.1840	\$0.1840	\$0.1840	\$0.1840	\$0.1840	\$0.1840	FY16
Gas CPG tax + 1¢ fee	\$0.1310	\$0.1310	\$0.1310	\$0.1310	\$0.1310	\$0.1310	\$0.1310	FY16
Gas Assessment	\$0.1340	\$0.1340	\$0.1340	\$0.1340	\$0.1340	\$0.1340	\$0.1340	FY16
TIB Assessment	\$0.0547	\$0.0379	\$0.0415	\$0.0438	\$0.0449	\$0.0467	\$0.0441	Wgt FY16
Total taxes	\$0.5037	\$0.4869	\$0.4905	\$0.4928	\$0.4939	\$0.4957	\$0.4931	Wgt FY16
Price ex taxes	\$1.8963	\$2.0731	\$2.1895	\$2.2472	\$2.3361	\$2.5343	\$2.21	Wgt Q215-Q116
TFund next quarter	\$0.1340	\$0.1340	\$0.1340	\$0.1340	\$0.1340			
TIB next quarter	\$0.0379	\$0.0415	\$0.0438	\$0.0449	\$0.0467			
Gallons sold qtr - Kavet	75,181,206	76,373,297	85,420,950	80,662,123	75,030,844	76,220,551	317,334,468	
TFund CPG tax net to TFund			\$9,691,007	\$9,151,118	\$8,512,249	\$8,647,222	\$36,001,595	
TFund Assessment revenue			\$11,446,407	\$10,808,724	\$10,054,133	\$10,213,554	\$42,522,819	
Total TFund revenue			\$21,137,414	\$19,959,842	\$18,566,382	\$18,860,775	\$78,524,414	
TIB revenue per forecast			\$3,544,969	\$3,533,001	\$3,368,885	\$3,559,500	\$14,006,355	
Total TFund + TIB			\$24,682,384	\$23,492,843	\$21,935,267	\$22,420,275	\$92,530,769	

Table 2 - Forecast with Floor	Jan-Mar 2015	Apr-Jun 2015	Jul-Sep 2015	Oct-Dec 2015	Jan-Mar 2016	Apr-Jun 2016	FY16 Avg / Tot	
Qtrly Avg retail gas - Kavet	\$2.4000	\$2.5600	\$2.6800	\$2.7400	\$2.8300	\$3.0300	\$2.7018	Wgt Q215-Q116
TIB Floor passthru %			100%	100%	100%	100%		
TIB Floor passthru \$			\$0.0000	\$0.0000	\$0.0000	\$0.0000		
Passthru adjusted retail gas price	\$2.4000	\$2.5600	\$2.6800	\$2.7400	\$2.8300	\$3.0300	\$2.7018	Wgt Q215-Q116
Federal tax	\$0.1840	\$0.1840	\$0.1840	\$0.1840	\$0.1840	\$0.1840	\$0.1840	FY16
Gas CPG tax + 1¢ fee	\$0.1310	\$0.1310	\$0.1310	\$0.1310	\$0.1310	\$0.1310	\$0.1310	FY16
Gas Assessment	\$0.1340	\$0.1340	\$0.1340	\$0.1340	\$0.1340	\$0.1340	\$0.1340	FY16
TIB Assessment	\$0.0547	\$0.0379	\$0.0415	\$0.0438	\$0.0449	\$0.0467	\$0.0441	Wgt FY16
Total taxes	\$0.5037	\$0.4869	\$0.4905	\$0.4928	\$0.4939	\$0.4957	\$0.4931	Wgt FY16
Price ex taxes	\$1.8963	\$2.0731	\$2.1895	\$2.2472	\$2.3361		\$2.2108	Wgt Q215-Q116
TFund next quarter	\$0.1340	\$0.1340	\$0.1340	\$0.1340	\$0.1340		Variables	
TIB next quarter with floor		\$0.0415	\$0.0438	\$0.0449	\$0.0467		\$0.0396	TIB floor
TIB next quarter with no floor / CL	\$0.0379	\$0.0415	\$0.0438	\$0.0449	\$0.0467		100%	Passthru %
TIB with floor - Change vs forecast		\$0.0000	\$0.0000	\$0.0000	\$0.0000		FY16	Q215-Q116
Gallons sold qtr - Kavet	75,181,206	76,373,297	85,420,950	80,662,123	75,030,844	76,220,551	317,334,468	317,487,214
Change in total taxes vs Curr Law			\$0.0000	\$0.0000	\$0.0000	\$0.0000	\$0.0000	
TIB revenue ■ Forecast-CL			\$3,544,969	\$3,533,001	\$3,368,885	\$3,559,500	\$14,006,355	
TIB revenue with floor ■ Forecast-NT			\$3,544,969	\$3,533,001	\$3,368,885	\$3,559,500	\$14,006,355	
Forecast-NT vs Forecast-CL			\$0	\$0	\$0	\$0	\$0	

Table 3 - Price Floor Analysis	Jan-Mar 2015	Apr-Jun 2015	Jul-Sep 2015	Oct-Dec 2015	Jan-Mar 2016	Apr-Jun 2016	FY16 Avg / Tot	
Qtrly Avg retail gas - scenario	\$2.4937	\$2.4700	\$2.4700	\$2.4700	\$2.4700	\$2.4700	\$2.4700	Wgt Q215-Q116
Federal tax	\$0.1840	\$0.1840	\$0.1840	\$0.1840	\$0.1840	\$0.1840	\$0.1840	FY16
Gas CPG tax	\$0.1310	\$0.1310	\$0.1310	\$0.1310	\$0.1310	\$0.1310	\$0.1310	FY16
Gas Assessment	\$0.1340	\$0.1340	\$0.1340	\$0.1340	\$0.1340	\$0.1340	\$0.1340	FY16
TIB Assessment	\$0.0547	\$0.0398	\$0.0396	\$0.0396	\$0.0396	\$0.0396	\$0.0396	Wgtd FY16
Total taxes	\$0.5037	\$0.4888	\$0.4886	\$0.4886	\$0.4886	\$0.4886	\$0.4886	FY16
Price ex taxes	\$1.9900	\$1.9812	\$1.9814	\$1.9814	\$1.9814		\$1.9814	Wgt Q215-Q116
TFund next quarter	\$0.1340	\$0.1340	\$0.1340	\$0.1340	\$0.1340			
TIB next quarter - No floor	\$0.0398	\$0.0396	\$0.0396	\$0.0396	\$0.0396			Q215- Q116
Gallons sold qtr - Kavet	75,181,206	76,373,297	85,420,950	80,662,123	75,030,844	76,220,551	317,334,468	317,487,214
TIB revenue ■ Forecast-CL			\$3,544,969	\$3,533,001	\$3,368,885	\$3,559,500	\$14,006,355	
TIB revenue ■ Scenario-CL			\$3,382,670	\$3,194,220	\$2,971,221	\$3,018,334	\$12,566,445	
Scenario-CL vs Forecast CL			-\$162,300	-\$338,781	-\$397,663	-\$541,166	-\$1,439,910	

Table 4 - Hypo Price / Current law	Jan-Mar 2015	Apr-Jun 2015	Jul-Sep 2015	Oct-Dec 2015	Jan-Mar 2016	Apr-Jun 2016	FY16 Avg / Tot	
Qtrly Avg retail gas - scenario	\$2.4937	\$2.0000	\$2.0000	\$2.0000	\$2.0000	\$2.0000	\$2.0000	Wgt Q215-Q116
Federal tax	\$0.1840	\$0.1840	\$0.1840	\$0.1840	\$0.1840	\$0.1840	\$0.1840	FY16
Gas CPG tax	\$0.1310	\$0.1310	\$0.1310	\$0.1310	\$0.1310	\$0.1310	\$0.1310	FY16
Gas Assessment	\$0.1340	\$0.1340	\$0.1340	\$0.1340	\$0.1340	\$0.1340	\$0.1340	FY16
TIB Assessment	\$0.0547	\$0.0398	\$0.0302	\$0.0304	\$0.0304	\$0.0304	\$0.0303	Wgted FY16
Total taxes	\$0.5037	\$0.4888	\$0.4792	\$0.4794	\$0.4794	\$0.4794	\$0.4793	Wgted FY16
Price ex taxes	\$1.9900	\$1.5112	\$1.5208	\$1.5206	\$1.5206		\$1.5184	Wgt Q215-Q116
TFund next quarter	\$0.1340	\$0.1340	\$0.1340	\$0.1340	\$0.1340			
TIB next quarter - No floor	\$0.0398	\$0.0302	\$0.0304	\$0.0304	\$0.0304			
Gallons sold qtr - Kavet	75,181,206	76,373,297	85,420,950	80,662,123	75,030,844	76,220,551	317,334,468	317,487,214
TIB revenue ■ Forecast-CL			\$3,544,969	\$3,533,001	\$3,368,885	\$3,559,500	\$14,006,355	
TIB revenue ■ Scenario-CL			\$2,579,713	\$2,452,129	\$2,280,938	\$2,317,105	\$9,629,884	
Scenario-CL vs Forecast CL			-\$965,257	-\$1,080,872	-\$1,087,947	-\$1,242,395	-\$4,376,471	

Table 5 - Hypo Price With Floor	Jan-Mar 2015	Apr-Jun 2015	Jul-Sep 2015	Oct-Dec 2015	Jan-Mar 2016	Apr-Jun 2016	FY16 Avg / Tot	
Qtrly Avg retail gas - scenario	\$2.4937	\$2.0000	\$2.0000	\$2.0000	\$2.0000	\$2.0000	\$2.0000	Wgt Q215-Q116
TIB Floor passthru %			100%	100%	100%	100%		
TIB Floor passthru \$			\$0.0094	\$0.0092	\$0.0092	\$0.0092		
Passthru adjusted retail gas price	\$2.4937	\$2.0000	\$2.0094	\$2.0092	\$2.0092	\$2.0092	\$2.0070	Wgt Q215-Q116
Federal tax	\$0.1840	\$0.1840	\$0.1840	\$0.1840	\$0.1840	\$0.1840	\$0.1840	FY16
Gas CPG tax	\$0.1310	\$0.1310	\$0.1310	\$0.1310	\$0.1310	\$0.1310	\$0.1310	FY16
Gas Assessment	\$0.1340	\$0.1340	\$0.1340	\$0.1340	\$0.1340	\$0.1340	\$0.1340	FY16
TIB Assessment	\$0.0547	\$0.0398	\$0.0396	\$0.0396	\$0.0396	\$0.0396	\$0.0396	Wgtd FY16
Total taxes	\$0.5037	\$0.4888	\$0.4886	\$0.4886	\$0.4886	\$0.4886	\$0.4886	Wgtd FY16
Price ex taxes	\$1.9900	\$1.5112	\$1.5208	\$1.5206	\$1.5206	\$1.5206	\$1.5184	Wgt Q215-Q116
TFund next quarter	\$0.1340	\$0.1340	\$0.1340	\$0.1340	\$0.1340			
TIB next quarter with floor	\$0.0398	\$0.0396	\$0.0396	\$0.0396	\$0.0396		\$0.0396	Wgt Q215-Q116
TIB next quarter with no floor		\$0.0302	\$0.0304	\$0.0304	\$0.0304		\$0.0304	Wgt Q215-Q116
Change in taxes vs No Floor		\$0.0094	\$0.0092	\$0.0092	\$0.0092		\$0.0092	Wgt Q215-Q116
Gallons sold qtr - Kavet	75,181,206	76,373,297	85,420,950	80,662,123	75,030,844	76,220,551	317,334,468	317,487,214
TIB revenue ■ Forecast-CL			\$3,544,969	\$3,533,001	\$3,368,885	\$3,559,500	\$14,006,355	
TIB revenue ■ Scenario-CL			\$2,579,713	\$2,452,129	\$2,280,938	\$2,317,105	\$9,629,884	
Scenario-CL vs Forecast-CL			-\$965,257	-\$1,080,872	-\$1,087,947	-\$1,242,395	-\$4,376,471	
TIB revenue ■ Scenario-NT			\$3,382,670	\$3,194,220	\$2,971,221	\$3,018,334	\$12,566,445	
Scenario NT vs Forecast-CL			-\$162,300	-\$338,781	-\$397,663	-\$541,166	-\$1,439,910	
Scenario NT vs Scenario-CL			\$802,957	\$742,092	\$690,284	\$701,229	\$2,936,561	

Table 6 - Scenario summary							
Hypothetical gas price / CL	\$2.4700		\$2.4000	\$2.3000	\$2.2000	\$2.1000	\$2.0000
TIB Floor	\$0.0396		\$0.0396	\$0.0396	\$0.0396	\$0.0396	\$0.0396
TIB revenue ■ Forecast-CL	\$14,006,355		\$14,006,355	\$14,006,355	\$14,006,355	\$14,006,355	\$14,006,355
TIB revenue ■ Scenario-CL	\$12,566,445		\$12,145,368	\$11,510,699	\$10,876,030	\$10,264,553	\$9,629,884
Scenario-CL vs Forecast-CL	-\$1,439,910		-\$1,860,987	-\$2,495,656	-\$3,130,325	-\$3,741,802	-\$4,376,471
TIB revenue ■ Scenario-NT	\$12,566,445		\$12,566,445	\$12,566,445	\$12,566,445	\$12,566,445	\$12,566,445
Scenario-NT vs Forecast-CL	-\$1,439,910		-\$1,439,910	-\$1,439,910	-\$1,439,910	-\$1,439,910	-\$1,439,910
Scenario-NT vs Scenario-CL	\$0		\$421,077	\$1,055,746	\$1,690,415	\$2,301,892	\$2,936,561
Change in total taxes vs Curr Law	\$0.000		\$0.001	\$0.003	\$0.005	\$0.007	\$0.009