PUBLIC ROUNDTABLE ON

BILL 16-462, "NATURAL GAS TAXATION REFORM EMERGENCY AMENDMENT ACT OF 2005"

Before the

Committee on Finance and Revenue
Council of the District of Columbia

The Honorable Jack Evans, Chairman

November 17, 2005, 11:00 a.m.
Council Chamber, John A. Wilson Building

Testimony of Julia Friedman
Deputy Chief Financial Officer
Office of Revenue Analysis

Natwar M. Gandhi
Chief Financial Officer
Government of the District of Columbia

Good morning, Mr. Chairman and members of the committee. I am Julia Friedman, Deputy Chief Financial Officer for Revenue Analysis and the District's Chief Economist. I am pleased to appear before you today to testify on the fiscal impact of Bill 16-462, the "Natural Gas Taxation Reform Emergency Amendment Act of 2005."

The proposed legislation establishes a new mechanism for collecting tax revenue on the sale of natural gas. Currently, tax is collected as a gross receipts tax based on the amount paid by both residential consumers and non-residential entities. The proposed legislation would change the natural gas gross receipts tax to a tax based on the volume of natural gas consumed by the end-user.

Under the current structure, District revenues increase or decrease in relationship to both the rise and fall of prevailing market prices for wholesale natural gas, and also to the amount of consumption of natural gas. The proposed legislation would apply a fixed rate tax on the consumption of natural gas by the end user. If a consumer's rate of usage remains the same from month to month, the taxes paid will remain constant. If usage changes, tax collections will increase or decrease in direct proportion only to the usage rather than a combination of price and usage.

The legislation proposes that residential and non-residential end-users pay a tax of $0.0703 for each therm of gas delivered. In addition, non-residential end-users would pay an additional tax of $0.00983 for each therm of gas delivered, the proceeds of which will be deposited in the Ballpark Fund. At these rates the legislation would produce the same amount of revenue in FY 2006 for both the

General Fund and the Ballpark Fund as under the current gross receipts tax provisions. However, there would be slight decreases in projected revenues in fiscal years 2007 through 2009 because the legislation eliminates the inflation factor that is incorporated into the revenue estimates under current law.

The original financial projections for the Ballpark Revenue Fund assumed an annual increase of the utility tax portion of the fund. Under this proposed legislation, the natural gas component of the utility tax portion is projected to remain flat because it is anticipated that usage will remain flat. Moreover, if actual usage declines due to higher prices, the utility tax portion would go down. Under these scenarios there would be a modest negative impact on the District's ability to finance a baseball stadium, such that during the fiscal years of 2007 through 2009 the impact to the General Fund would be a decrease in revenues of $400,000 in FY 2007, $900,000 in FY 2008, and $1.3 million in FY 2009, or a total of $2.6 million, for the period. For the same time period, the impact to the Ballpark Fund is estimated to be an annual reduction of $100,000, or a total reduction of $300,000 for the same time period.

In addition, there are implementation costs that would be incurred by the Office of Tax and Revenue of approximately $200,000 for the FY 2006-2009 time period.

This concludes my testimony. I would like to thank you for the opportunity to testify before you today. I would be happy to respond to any questions you may have.

# # #