Government of the District of Columbia
Office of the Chief Financial Officer

Natwar M. Gandhi
Chief Financial Officer

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CHAIRMAN CROPP

MEMORANDUM

TO:	**The Honorable Linda W. Cropp** **Chairman, Council of the District of Columbia**
FROM:	**Natwar M. Gandhi** **Chief Financial Officer**
DATE:	OCT 11 2005
SUBJECT:	**Fiscal Impact Statement: "Natural Gas Taxation Reform Emergency Amendment Act of 2005"**
REFERENCE:	**Draft Legislation to be Introduced – No Bill Number Available**

Conclusion

Funds are sufficient in the FY 2006 budget to implement the proposed legislation. The legislation would produce the same amount of revenue for FY 2006 as under current law.

Background

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 for Fiscal Year 2006.

Financial Plan Impact

Under current law, natural gas is taxed through a gross receipts tax. Under this system, District revenues increase or decrease in relationship to both the rise or 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 for Fiscal Year 2006 residential and non-residential end-users pay a tax or $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.