Effects of Gasoline Pricing on State Revenues & Expenditures

Interim Joint Committee on Appropriations & Revenue

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August 15 Consensus Forecast Group Planning Report Assumptions

• Motor fuels rate = 9% of KY Average Wholesale Price (AWP) of a gallon of gasoline (calculated in prior quarter). Current floor is $1.22. By statute, AWP cannot increase more than 10% in a fiscal year

• Maximum AWP cannot exceed:
  – $1.34 for FY 06
  – $1.48 for FY 07

• Next Consensus Forecast due October 15
Motor Fuels Tax Rate Estimates
August CFG

Calendar Quarter

Cents per Gallon
Taxable Volume (in gallons)
(Source: KY Department of Revenue)

**July 2004**
- Gasoline: 201,519,611
- Special Fuels: 92,483,104
- Total: 294,002,715

**July 2005**
- Gasoline: 198,204,732
- Special Fuels: 92,593,648
- Total: 290,798,380

**DIFFERENCE:**
3,204,715 (-1.09%)
Effects of Gasoline Pricing on State Government Expenditures
Fleet Management

• FY 05 cost of fuel purchased = $7,588,600 (4,361,272 gallons at an average annualized price of $1.74/gallon)

• Fleet Management prices since beginning of fiscal year:
  – June 30, 2005: $1.87/gallon
  – August 16, 2005: $2.39/gallon
  – September 1, 2005: $2.72/gallon
  – September 2, 2005: $2.82/gallon
  – September 21, 2005: $2.28/gallon
  – Average for FY 06:  ????

• At this point, the annualized average wholesale price Fleet Management will pay in FY 06 is unknown. If one assumes an average annualized cost of $2.50/gallon, the annual FY 06 cost would equal $10.9 M (+$3.3 M or a 44% increase over FY 05) assuming FY 05 consumption levels
Fleet Management, cont.

- Each 1 cent increase in the annualized AWP of gasoline = $43,600 annualized change in Fleet Management’s cost, assuming a constant level of consumption. This equates to not being able to replace two vehicles.

- Expenditures on gasoline in excess of budgeted amount for FY 06 will come from the vehicle replacement account.
Kentucky State Police

- FY 05 – $3,168,000 (1.8 million gallons of fuel at $1.76/gallon)

- FY 06 estimated – $4,500,000 (assumes 1.8 million gallons at $2.50/gallon or $1.3 M more than FY 05 )
Environmental & Public Protection Cabinet

- FY 05 - $1,149,000 (668,000 gallons at $1.72/gallon)
- FY 06 estimated – $1,670,000 (assumes 668,000 gallons at $2.50/gallon or $521,000 more than FY 05)
Privately Owned (employee) Vehicles

- FY 05 – $8.56 M (25 million miles at annualized cost of 34.25 cents/mile)

- FY 06 - $9.4 M or $840,000 over FY 05 expenditures (assumes same level of at estimated annualized rate of 37.625 cents/mile)
IMPACT OF FUEL PRICE INCREASES ON LOCAL SCHOOL DISTRICTS
BACKGROUND

• Approximately 9,650 school buses statewide
• More than 99% of buses use diesel fuel
• Fuel outlays have historically averaged approximately 8% of total pupil transportation costs
• Pupil transportation enacted appropriation = $212 M in FY 04. Of that amount, $17.5 M was spent on fuel.
FY 2005

• Increased fuel prices became serious problem during FY 2005
• Pupil transportation enacted appropriation = $212 M in FY 05. Of that, $24.0 M was spent on fuel, $6.5 M (37%) more than FY 04
• Most districts overspent fuel budgets
• Fuel spending increased from 7.9% to 10.5% of total pupil transportation outlays
• Districts absorbed cost increases with offsetting cuts elsewhere and by deferring purchases of new buses
FY 2006

- Total pupil transportation enacted appropriation = $212 M in FY 06.
- Fuel cost increases, exacerbated by Katrina, turn a serious problem into a more serious problem.
- Availability is a new problem—expected to ease as Gulf region recovers
- Prices likely to ease over next few months
- Jefferson County began school year paying $1.65/gallon for diesel; paid $2.47/gallon post-Katrina. Cost averaged $1.08/gallon during FY 05
- Assuming average cost of $2.12/gallon in FY 06, most district fuel budgets will nearly double, absent any offsetting changes
- FY 06 fuel costs expected to be $42.5 M
- Districts will have to defer new/replacement bus purchases; curtail or eliminate field trips
CONCLUSIONS

FY 2006 fuel cost increases pose a serious problem for local school districts.