

Department of Legislative Services
 Maryland General Assembly
 2005 Session

FISCAL AND POLICY NOTE

House Bill 878 (Delegate Sossi, *et al.*)
 Ways and Means

Motor Fuel Tax - Exemption for Biodiesel Fuel - Queen Anne's County

This bill exempts from the motor fuel tax biodiesel fuel that is bought for use in Queen Anne’s County government vehicles and school buses.

The bill takes effect July 1, 2005 and terminates June 30, 2008.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) revenues could decrease by approximately \$58,900 per year for the three years covered under the bill, which reflects constant Queen Anne’s County purchases of biodiesel fuel. The State’s share of the TTF revenue loss is \$41,000. General fund revenues would decrease by approximately \$1,100 per year, and certain small dedicated revenue streams would decrease by approximately \$300 per year over the same period. The Comptroller’s Office could administer the bill with existing resources.

(in dollars)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Revenue	(\$1,100)	(\$1,100)	(\$1,100)	\$0	\$0
SF Revenue	(58,900)	(58,900)	(58,900)	0	0
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$60,000)	(\$60,000)	(\$60,000)	\$0	\$0

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Motor fuel tax payments by Queen Anne’s County would decrease by approximately \$60,000 per year for the three years covered under the bill. The county would benefit by \$60,000 in FY 2006 due to a grant from the Maryland Energy Administration (MEA) that covers the expected increased cost of biodiesel fuel. Local highway user revenues distributed from the TTF to all counties would decrease by approximately \$17,500 annually from FY 2006 through 2008.

Small Business Effect: None.

Analysis

Current Law: Diesel fuel, including fuel purchased by local governments, is subject to a motor fuel tax of 24.25 cents per gallon.

Background: “Biodiesel” is motor fuel derived from agriculture products, primarily soybeans. It burns with fewer emissions than standard petroleum-based diesel fuel. It can also be blended with petroleum-based diesel (such as 2% biodiesel (“B2”) or 20% biodiesel (“B20”)), to achieve some of the emission reduction goals of biodiesel while avoiding mechanical problems and mitigating the current price premium for biodiesel.

State Effect: Queen Anne’s County government advises that it purchases approximately 247,000 gallons of taxable diesel fuel annually. Based on this level of consumption, the county pays approximately \$60,000 annually in motor fuel taxes. The county purchases a smaller amount of diesel fuel used for off-road purchases that is currently exempt from the motor fuel tax.

Based on the current law for distribution of motor fuel taxes and assuming no distribution by the Comptroller’s Office for permissible administrative deductions or refunds, and assuming that the county shifts its purchases to 100% biodiesel, the State’s revenue loss is illustrated below.

<u>Program</u>	<u>Statutory Distribution</u>	<u>Revenue Loss under HB 878</u>
Waterway Improvement Fund	0.3% of first 18.5 cents	\$148
Fisheries Research and Development Fund	0.3% of first 18.5 cents	148
Chesapeake Bay Programs (general fund)	2.3% of first 18.5 cents	1,132
Transportation Trust Fund, of which:	100% after above deductions on first 18.5 cents; 100% above 18.5 cents	58,572
Maryland Department of Transportation	70%	41,000
Highway User Revenue (local governments)	30%	<u>17,572</u>
Total		\$60,000

Local Fiscal Effect: Queen Anne's County advises that the current premium for biodiesel is roughly equivalent to the 24.25 cent per gallon tax rate for diesel. MEA advises that it has disbursed a grant of \$60,000 to help Queen Anne's County make the transition from diesel to biodiesel in the county's fleet of vehicles. Queen Anne's County will benefit by \$60,000 in fiscal 2006 if the bill passes due to the double benefit of the tax exemption and MEA grant. Assuming that no more grants are disbursed by MEA, in fiscal 2007 and 2008 the benefit of the tax exemption to Queen Anne's County would effectively offset the price premium paid by the county for biodiesel fuel.

Additional Information

Prior Introductions: This bill was introduced in the 2004 session as SB 21/HB 395. SB 21 received an unfavorable report from the Senate Budget and Taxation Committee. HB 395 received an unfavorable report from the House Ways and Means Committee

Cross File: SB 448 (Senator Pipkin) – Budget and Taxation.

Information Source(s): Queen Anne's County, Comptroller's Office, Maryland Department of Transportation, Department of Legislative Services

Fiscal Note History: First Reader - March 3, 2005
ncs/hlb

Analysis by: Robert J. Rehrmann

Direct Inquiries to:
(410) 946-5510
(301) 970-5510