

Department of Legislative Services
 Maryland General Assembly
 2007 Session

FISCAL AND POLICY NOTE
 Revised

House Bill 47

(Delegate Hixson, *et al.*)

Ways and Means

Budget and Taxation

Motor Fuel Tax - Exemption for Biodiesel Fuel - Government Vehicles

This bill reduces the State motor fuel tax for biodiesel fuel that is bought for use in local government vehicles. The motor fuel tax is reduced by 50% in fiscal 2008, 60% in fiscal 2009, and 70% in fiscal 2010. Privately owned buses used to transport students under a contract with a county or municipal corporation qualify for the reduced tax rates. The Comptroller is required to adopt regulations to implement the bill.

The bill takes effect July 1, 2007 and terminates June 30, 2010.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) revenues could decrease by \$105,900 in FY 2008, of which the State's share is \$74,100. General fund revenues could decrease by \$1,300 in FY 2008, and certain dedicated special funds could decrease by \$300. Future years reflect additional revenue losses from local governments increasing biodiesel fuel consumption and increase in the value of the exemption. Expenditures would not be affected.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Revenue	(\$1,300)	(\$4,900)	(\$11,200)	\$0	\$0
SF Revenue	(106,200)	(348,100)	(726,800)	0	0
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$107,500)	(\$353,000)	(\$738,000)	\$0	\$0

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

Local Effect: Local governments would realize a net savings of \$61,200 in FY 2008. This represents a \$93,000 decrease in motor fuel tax payments and a \$31,800 decrease in local highway user revenues. Local governments that use biodiesel fuel would realize a net benefit while local governments that do not would experience a minimal decrease in local highway user revenues.

Small Business Effect: Minimal.

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 a domestically produced, renewable fuel that can be manufactured from vegetable oils, animal fats, or recycled restaurant greases. Biodiesel is biodegradable and reduces air pollutants such as particulates, carbon monoxide, hydrocarbons, and sulfates as well as potential carcinogens such as nPAH's nitrated Polycyclic Aromatic Hydrocarbons and PAH's but increases nitrogen oxides. Blends of 20% biodiesel with 80% petroleum diesel (B20) can generally be used in unmodified diesel engines. Biodiesel can also be used in its pure form (B100), but it may require certain engine modifications.

The State and Queen Anne's County currently reduce the use of biodiesel during wintertime due to performance issues. The Department of General Services purchased approximately 465,000 gallons of B20 or lower grade in 2006.

The U.S. Environmental Protection Agency (EPA) began in June 2006 a phased-in mandate requiring a complete transition from Low Sulfur Diesel to Ultra Low Sulfur Diesel (ULSD) that will be complete in December 2010. While a conventional fuel, once all vehicles can use the fuel, the EPA estimates that total pollution emitted from diesel vehicles will be reduced by 90%. Montgomery County, the City of Rockville, Frederick County, College Park, and Bowie have elected to purchase ULSD along with local governments and agencies in the District of Columbia and Northern Virginia through the Washington Metro Council of Governments.

State Fiscal Effect: Based on current distributions of motor fuel taxes and assuming no distribution by the Comptroller's Office for permissible administrative deductions or refunds, motor fuel tax losses in fiscal 2008 would total approximately \$107,500 as illustrated below. This reflects a reduction in the fuel tax paid from 24.25 cents per gallon to 12.125.

<u>Program</u>	<u>Statutory Distribution</u>	<u>Revenue Loss under HB 47</u>
Waterway Improvement Fund (SF)	0.3% of first 18.5 cents	\$170
Fisheries Research and Development Fund (SF)	0.3% of first 18.5 cents	170
Chesapeake Bay Programs (GF)	2.3% of first 18.5 cents	1,300
Transportation Trust Fund (TTF)	100% after above deductions on first 18.5 cents; 100% above 18.5 cents	105,901
Maryland Department of Transportation	70%	74,131
User Revenue (Local)	30%	<u>31,770</u>
Total		\$107,541

This estimate is based on the projected consumption of biodiesel fuel by local governments, which includes the City of Takoma Park and Caroline, Kent, Queen Anne's, and Worcester counties. Several counties and municipalities have recently or are currently testing biodiesel fuels in their fleets on a limited basis as part of a possible fleet-wide switch to biodiesel. This reduction in fuel taxes would also apply to privately owned buses used to transport students.

Future year estimates are based on the recent increase in biodiesel consumption in Maryland and indications from certain counties that express a willingness to increase biodiesel consumption should the bill pass. The bill provides substantial incentive to local governments and privately operated school buses to switch to biodiesel. The current premium for biodiesel is typically between 8 to 12 cents per gallon. The reduction in fuel taxes per gallon of biodiesel under the bill would be 12 cents in fiscal 2008, 15 cents in fiscal 2009, and 17 cents in fiscal 2010. To the extent that these localities switch to fleet-wide use of biodiesel earlier than expected, revenue losses could be greater than estimated.

Local Effect: Exhibit 1 lists the net impact to all local governments in fiscal 2008 through 2010.

Exhibit 1
HB 47 Local Government Impact

	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>	<u>Fiscal 2010</u>
Fuel Tax Payment Savings	\$93,000	\$292,000	\$557,200
Decrease in Local Highway User Revenues	31,800	104,100	217,200
Net Impact	\$61,200	\$187,900	\$340,000

Local governments would benefit, in the aggregate, by approximately 7 cents per gallon of biodiesel purchased in fiscal 2008 and 8 cents in fiscal 2009 and 2010. It is assumed that one-half of the tax credit claimed by privately-operated buses would accrue to the operator and one-half to local governments. This net benefit would be higher in counties that consume biodiesel and lower (slightly negative) in counties that do not consume biodiesel due to the minimal loss in local highway user revenues distributed from TTF to local governments. In addition, any net benefit to a local government would likely be offset at least in the near term given the current premium for biodiesel.

Additional Information

Prior Introductions: HB 1344 of 2006, an similar bill, received a favorable with amendments report from the House Ways and Means Committee and passed the House of Delegates; but received an unfavorable report from the Senate Budget and Taxation Committee.

Cross File: None.

Information Source(s): Anne Arundel County, Baltimore City, Baltimore County, Caroline County, Carroll County, Cecil County, Dorchester County, Frederick County, Garrett County, Harford County, Howard County, Kent County, Montgomery County, Prince George's County, Queen Anne's County, Wicomico County, City of Takoma Park, Maryland Energy Administration, Department of Legislative Services

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