

Department of Legislative Services  
 Maryland General Assembly  
 2004 Session

FISCAL AND POLICY NOTE

House Bill 395 (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, 2004 and sunsets June 30, 2007.

Fiscal Summary

**State Effect:** Transportation Trust Fund (TTF) revenues would decline by approximately \$47,100 per year for the three years covered under the bill, assuming flat growth over that period. General fund revenues would decline by approximately \$1,100 per year, and certain small dedicated revenue streams would decline by approximately \$300 per year over the same period. The Comptroller's Office could administer the bill with existing resources.

(in dollars)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
GF Revenue	(\$1,100)	(\$1,100)	(\$1,100)	\$0	\$0
SF Revenue	(47,400)	(47,400)	(47,400)	o	0
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$48,500)	(\$48,500)	(\$48,500)	\$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 decline by approximately \$48,500 per year for the three years covered under the bill. The county advises that these savings would be roughly offset by the price premium it pays for biodiesel.

**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 and Local Fiscal Effect:** Queen Anne’s County government advises that it purchases approximately 200,000 gallons of taxable diesel fuel annually. (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 this level of consumption, the county pays approximately \$48,500 annually in motor fuel taxes.

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 SB 21</u>
Waterway Improvement Fund	0.3% of first 18.5 cents	\$146
Fisheries Research and Development Fund	0.3% of first 18.5 cents	146
Chesapeake Bay Programs (general fund)	2.3% of first 18.5 cents	1,116
Transportation Trust Fund, of which:	100% after above deductions on first 18.5 cents; 100% above 18.5 cents	47,094
Maryland Department of Transportation	70%	32,966
Highway User Revenues (local governments)	30%	14,128
Total		\$48,500

Numbers may not total due to rounding.

The county advises that the current premium for biodiesel is roughly equivalent to the 24.25 cent per gallon tax rate for diesel, so the tax exemption would effectively offset the price premium paid by the county.

**Additional Comments:** The county advises that it will purchase B20 biodiesel from a motor fuel vendor. Absent State law or regulation to the contrary, it is assumed that the entire purchase would be exempt from the motor fuel tax, even though 80% of the fuel would be petroleum-based diesel.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** SB 21 (Senator Pipkin) – Budget and Taxation.

**Information Source(s):** Queen Anne’s County, Comptroller’s Office, Department of Legislative Services

**Fiscal Note History:** First Reader - January 30, 2004  
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