

Department of Legislative Services
 Maryland General Assembly
 2006 Session

FISCAL AND POLICY NOTE

House Bill 223
 Ways and Means

(Queen Anne’s County Delegation, *et al.*)

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

This bill exempts from the State 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, 2006 and terminates June 30, 2009.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) revenues could decrease by \$58,700 per year in FY 2007 through 2009, of which the State’s share is \$41,100. General fund revenues could decrease by \$1,100 per year over the same period, and certain dedicated special funds could decrease by \$300 per year. The Comptroller’s Office could administer the bill with existing resources.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
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 could decrease by \$60,000 per year for the three years covered under the bill. Based on the current premium paid by Queen Anne’s County for biodiesel, the county would benefit by approximately \$28,700 per year above and beyond the additional price paid for biodiesel. Local highway user revenues distributed from the TTF to all counties could decrease by \$17,600 annually from FY 2007 through 2009.

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 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 sulfur dioxide. 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 to avoid maintenance and performance problems and may not be suitable for wintertime use.

State Effect: Queen Anne’s County government 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 Queen Anne’s County shifts its purchases of motor fuel to 100% biodiesel, the State’s revenue loss would total approximately \$60,000 annually as illustrated below.

<u>Program</u>	<u>Statutory Distribution</u>	<u>Revenue Loss under HB 223</u>
Waterway Improvement Fund (SF)	0.3% of first 18.5 cents	\$137
Fisheries Research & Development Fund (SF)	0.3% of first 18.5 cents	137
Chesapeake Bay Programs (GF)	2.3% of first 18.5 cents	1,053
Transportation Trust Fund (TTF)	100% after above deductions on first 18.5 cents; 100% above 18.5 cents	58,673
Maryland Department of Transportation	70%	41,071
User Revenue (Local)	30%	<u>17,601</u>
Total		\$60,000

Local Fiscal Effect: The Maryland Energy Administration (MEA) disbursed a grant of \$60,000 to Queen Anne’s County in fiscal 2006 in order to help county vehicles shift from diesel to biodiesel. Queen Anne’s County advises that, to date, in fiscal 2006 it has expended a total of \$232,679 on 107,248 gallons of biodiesel. It has used a total of \$13,557, or \$0.13 per gallon of biodiesel purchased, of the MEA grant to cover the premium paid for biodiesel. The premium paid represents the additional cost of

purchasing biodiesel fuel instead of diesel fuel. Currently, biodiesel use has been suspended until April 2006 due to performance issues but the county anticipates purchasing a total of 247,000 gallons in fiscal 2007 and beyond.

Assuming a constant premium of \$0.13 per gallon and a total of 247,000 gallons purchased, Queen Anne's County would incur an additional cost of \$31,300 annually to purchase biodiesel fuel, which is approximately \$28,700 less than the amount of the diesel tax exemption. The premium paid for biodiesel depends on diesel and biodiesel prices, which have been volatile. However, the premium paid for biodiesel has decreased over time, and many analysts expect that it will continue to decrease. To the extent that the premium paid for biodiesel decreases (increases), Queen Anne's County would benefit more (less) than \$28,700 annually from fiscal 2007 through 2009.

MEA advises that it has not included another grant in fiscal 2007 in order to assist Queen Anne's County's shift to biodiesel and does not currently plan on including one in the future.

Additional Information

Prior Introductions: Identical bills were introduced at the 2005 session as SB 448/HB878 and at the 2004 session as SB 21/HB 395. SB 448 was not reported from the Senate Budget and Taxation Committee. HB 878 received an unfavorable report from the House Ways and Means Committee. SB 21 and HB 395 received unfavorable reports from the Senate Budget and Taxation and House Ways and Means Committee, respectively.

Cross File: SB 50 (Senator Pipkin) – Budget and Taxation.

Information Source(s): Queen Anne's County, U.S. Department of Energy, Department of Legislative Services

Fiscal Note History: First Reader - February 21, 2006
ncs/hlb

Analysis by: Robert J. Rehrmann

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