

Department of Legislative Services  
 Maryland General Assembly  
 2006 Session

FISCAL AND POLICY NOTE  
 Revised

House Bill 1344  
 Ways and Means

(Delegate Hixson, *et al.*)

Budget and Taxation

**Motor Fuel Tax - Exemption for Biodiesel Fuel - Government Vehicles**

This bill reduces by 50% the State motor fuel tax for biodiesel fuel that is bought for use in local government vehicles.

The bill takes effect July 1, 2006 and terminates June 30, 2009.

**Fiscal Summary**

**State Effect:** Transportation Trust Fund (TTF) revenues could decrease by \$54,000 in FY 2007, of which the State's share is \$37,800. General fund revenues could decrease by \$670 in FY 2007, and certain dedicated special funds could decrease by \$170. Future years reflect additional revenue losses from local governments switching to biodiesel fuel. Expenditures would not be affected.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
GF Revenue	(\$700)	(\$6,100)	(\$6,100)	\$0	\$0
SF Revenue	(54,100)	(497,200)	(497,200)	0	0
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$54,800)	(\$503,300)	(\$503,300)	\$0	\$0

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

**Local Effect:** Net local government revenues could increase by approximately \$38,600 in FY 2007, which represents a decrease in motor fuel tax payments of \$54,800 in FY 2007 and a decrease in highway user revenues distributed from the TTF of approximately \$16,200.

**Small Business Effect:** None.

## Analysis

**Current Law:** Diesel fuel, including fuel purchased by local governments and 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:** 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, the State's revenue loss in fiscal 2007 would total approximately \$54,800 as illustrated below, which reflects a reduction in the fuel tax paid from 24.25 cents per gallon to 12.125 cents per gallon.

<u>Program</u>	<u>Statutory Distribution</u>	<u>Revenue Loss under HB 1344</u>
Waterway Improvement Fund (SF)	0.3% of first 18.5 cents	\$86
Fisheries Research & Development Fund (SF)	0.3% of first 18.5 cents	86
Chesapeake Bay Programs (GF)	2.3% of first 18.5 cents	663
Transportation Trust Fund (TTF)	100% after above deductions on first 18.5 cents; 100% above 18.5 cents	53,968
Maryland Department of Transportation	70%	37,778
User Revenue (Local)	30%	<u>16,140</u>
<b>Total</b>		<b>\$54,803</b>

This estimate is based on the estimated consumption of biodiesel fuel by local governments, which includes the City of Takoma Park and Caroline, Talbot, Queen Anne's, and Worcester counties. In addition, Anne Arundel County and the City of Annapolis are currently testing biodiesel fuels in their fleets on a limited basis as part of a possible fleet-wide switch to biodiesel.

A number of localities indicated that if the bill were to pass they would most likely switch to biodiesel, including Montgomery County, which advises that any switch over would be phased in as certain vehicles are not biodiesel compatible and a supply chain would need to be developed. If Montgomery County and other localities that currently purchase a limited amount of biodiesel switch to fleet-wide use of biodiesel, State  
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revenues could decrease by approximately \$503,300 annually in fiscal 2008 and 2009. To the extent that these localities switch to fleet-wide use of biodiesel earlier than expected, revenue losses could be greater than estimated in fiscal 2007.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Anne Arundel County, Caroline County, Montgomery County, Queen Anne's County, Worcester County, City of Greenbelt, City of Takoma Park, Morgan State University, St. Mary's College, University System of Maryland, U.S. Department of Energy, Maryland Energy Administration, Maryland State Department of Education, Department of Legislative Services

**Fiscal Note History:** First Reader - March 5, 2006  
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