Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

Senate Bill 140   (Senator Pipkin)

Budget and Taxation

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

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

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

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) revenues could decrease by $54,500 annually in FY 2008 through 2010, of which the State's share is $38,200. General fund revenues could decrease by $1,000 annually 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 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Revenue	($1,000)	($1,000)	($1,000)	$0	$0
SF Revenue	(54,800)	(54,800)	(54,800)	0	0
Expenditure	$0	$0	$0	$0	$0
Net Effect	($55,800)	($55,800)	($55,800)	$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 $55,800 annually from FY 2008 through 2010. Local highway user revenues distributed from the TTF to all counties could decrease by $16,400 annually from FY 2008 through 2010.

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 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 (Polycyclic Aromatic Hydrocarbons). 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.

Queen Anne's County advises that it currently purchases around 230,000 gallons of biodiesel annually. The Department of General Services purchased approximately 465,000 gallons of B20 or lower grade in 2006. The State and Queen Anne's County currently reduce the use of biodiesel during wintertime due to performance issues. Several other local governments consume biodiesel fuel, including the City of Takoma Park and Caroline, Kent, and Worcester counties.

The Maryland Energy Administration (MEA) disbursed a grant of $60,000 to Queen Anne's County in fiscal 2006 to help county vehicles shift from diesel to biodiesel. The county advises that, to date, it has expended a total of $39,483, or approximately $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 conventional diesel fuel.

State Effect: Based on the current level of biodiesel consumed by Queen Anne's County, the county pays approximately $55,800 annually in biodiesel 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, the State's revenue loss would total approximately $55,800 annually as illustrated below.

Program	Statutory Distribution	Revenue Loss under SB 140
Waterway Improvement Fund (SF)	0.3% of first 18.5 cents	$128
Fisheries Research & Development Fund (SF)	0.3% of first 18.5 cents	128
Chesapeake Bay Programs (GF)	2.3% of first 18.5 cents	979
Transportation Trust Fund (TTF)	100% after above deductions on first 18.5 cents; 100% above 18.5 cents	54,541
Maryland Department of Transportation	70%	38,179
Highway User Revenue (Local)	30%	16,362
Total		**$55,775**

Local Fiscal Effect: Motor fuel tax payments by Queen Anne's County could decrease by $55,800 annually for each of the three years covered under the bill. Local highway user revenues for all local governments could decrease by $16,400 annually during this same time period.

Assuming a constant premium of $0.13 per gallon and a total of 230,000 gallons purchased, Queen Anne's County would incur an additional cost of approximately $30,400 annually to purchase biodiesel fuel. This is approximately $25,400 less than the amount of the annual biodiesel fuel tax exemption. In addition, based on current consumption patterns, Legislative Services estimates that the county will have approximately $15,000 of MEA grant funds that can be used to defray the cost of purchasing biodiesel in fiscal 2008; effecting a total net benefit of approximately $91,600 to the county as a result of the bill.

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 a total of $91,600 from fiscal 2008 through 2010.

Additional Information

Prior Introductions: Identical bills were introduced at the 2006, 2005, and 2004 sessions. SB 50/HB 223 of 2006, HB 878 of 2005, and SB 21/HB 395 of 2004 received unfavorable reports from the Senate Budget and Taxation and House Ways and Means committees, respectively. SB 448 of 2005 was not reported from the Senate Budget and Taxation Committee.

Cross File: None.

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

Fiscal Note History: First Reader - February 9, 2007
bfl/hlb

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