

Department of Legislative Services
Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

Senate Bill 342 (Senator Garagiola)
Education, Health, and Environmental Affairs

Procurement - Flexible-Fuel Vehicles - Alternative Fuel Requirements

This bill requires that 25% of the State's fleet of flexible fuel vehicles is fueled exclusively with E85 fuel beginning in fiscal 2010, increasing to 50% of the fleet beginning in fiscal 2012. E85 fuel is defined as a blend of ethanol and gasoline that meets the specifications for E85 developed by the American Society of Testing and Measurements.

Fiscal Summary

State Effect: The short- and long-term fiscal effects cannot be reliably estimated due to the scarcity of E85 fuel in Maryland and current variability and volatility in the prices of E85 and regular unleaded gasoline. Assuming that retail availability of E85 increases significantly by FY 2010, the bill's fiscal impact would likely be minimal and could result in reduced State expenditures for fuel.

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Current Law: Beginning in fiscal 2008, the State must ensure that 50% of diesel-powered vehicles in the State fleet use a blend of fuel that is 5% biodiesel fuel (B5). Beginning in fiscal 2009, at least 50% of diesel-powered heavy equipment and heating equipment owned by the State must use B5. Any vehicle or piece of equipment

for which mechanical failure due to the use of biodiesel fuel would void the manufacturer's warranty is exempt from these requirements.

There are no requirements for the use of E85 among vehicles in the State fleet.

Background: Chapter 540 of 2007 established the Task Force on Renewable Alternative Fuels, chaired by the Secretary of Agriculture. The task force's final report, released in December 2007, recommended that the State offer financial incentives to spur both production and consumption of biofuels, including E85. It also recommended that the State consider increasing State fleet mandates regarding the use of biofuels.

E85 is a fuel blend that is 85% ethanol and 15% gasoline. Derived primarily from corn, ethanol burns cleaner than gasoline and degrades rapidly in water. E85 consumption reduces hydrocarbon, benzene, and carbon dioxide emissions compared with regular unleaded gasoline. However, 15% to 20% reductions in fuel efficiency have been observed in flexible fuel vehicles using E85 compared with regular unleaded gasoline, according to the task force's final report.

The State vehicle fleet consists of 9,100 vehicles, of which approximately 1,300 are alternative fuel vehicles, including flexible fuel vehicles and compressed natural gas-powered (CNG) vehicles. Flexible fuel vehicles are capable of operating seamlessly with either regular unleaded gasoline or with E85 fuel, or a combination of both. The vast majority of the fleet's alternative fuel vehicles are flexible fuel vehicles (90% or approximately 170 vehicles) because the State has stopped purchasing CNG vehicles. Almost 25% of the 1,000 new vehicles purchased by the State annually are flexible fuel vehicles. However, the Department of Budget and Management, which manages the vehicle fleet, reports that only about 5% of flexible fuel vehicles in the fleet are currently fueled by E85 due to the lack of convenient suppliers. Indeed, the Task Force on Renewable Alternative Fuels identified just three E85 fueling stations in the State as of December 2007. A fourth site is scheduled to open in February 2008.

State Fiscal Effect: The price difference between regular unleaded gasoline and E85 fuel varies by region and time. The Energy Management Institute's Alternative Fuels Index provides weekly updates on the price of E85 compared with regular unleaded gasoline in cities across the United States. Unfortunately, given the limited supply of E85 in the State, none of the cities in the index are in or around Maryland. However, an analysis by Legislative Services of the January 24, 2008 index shows that in 60% of the cities in the index (21 of 35), E85 fuel costs less than regular unleaded fuel. Price gaps in the index varied widely, from 1 or 2 cents in some locations to more than 20 cents in other locations. The Department of General Services cites a 2-cent price difference as of February 18, 2008, with E85 prices being higher.

Based on the variability and volatility of gasoline and ethanol prices, and the available data from the alternative fuel index, Legislative Services cannot reliably estimate the bill's short- or long-term fiscal impact, except to say that the fiscal impact is not likely to be significant and could even result in reduced State fuel expenditures. This assessment depends, however, on increased retail supply of E85 fuel. If E85 does not become more readily available, the State will find it difficult to comply with the bill's provisions.

Small Business Effect: By increasing demand for ethanol, this bill could increase demand for corn grown by Maryland farmers. The Task Force on Renewable Alternative Fuels attributed a 10% increase in corn production by Maryland farmers in 2007 to increased national demand for ethanol.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of General Services, University System of Maryland, Maryland Department of Transportation, Energy Management Institute, Maryland Department of Agriculture, Department of Legislative Services

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Analysis by: Michael C. Rubenstein

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