

Department of Legislative Services
 Maryland General Assembly
 2008 Session

FISCAL AND POLICY NOTE

Senate Bill 474 (Senator Garagiola, *et al.*)
 Budget and Taxation

Motor Fuel Tax - Exemptions for Biodiesel - Government Vehicles

This bill reduces the State motor fuel tax for biodiesel fuel that is bought for use in local government vehicles. The motor fuel tax is reduced by 50% in fiscal 2009, 40% in fiscal 2010, and 30% in fiscal 2011. The Comptroller is required to adopt regulations to implement the bill.

The bill takes effect July 1, 2008.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) revenues could decrease by \$110,000 in FY 2009, of which the State's share is \$77,000. Chesapeake Bay 2010 Trust Fund revenues could decrease by \$1,400 in FY 2009. Future years reflect additional revenue losses from local governments increasing biodiesel fuel consumption and a decrease in the value of the exemption. Expenditures would not be affected.

(in dollars)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
SF Revenue	(\$111,400)	(\$98,000)	(\$80,900)	-	\$0
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$111,400)	(\$98,000)	(\$80,900)	\$0	\$0

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

Local Effect: Local governments would realize a net savings of \$78,400 in FY 2009. This represents a \$111,400 decrease in motor fuel tax payments and a \$33,000 decrease in local highway user revenues. Local governments that use biodiesel fuel would realize a net benefit while local governments that do not would experience a minimal decrease in local highway user revenues.

Small Business Effect: Minimal.

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 sulfates as well as potential carcinogens such as nPAH's nitrated Polycyclic Aromatic Hydrocarbons and PAH's but increases nitrogen oxides. 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.

The U.S. Environmental Protection Agency (EPA) began in June 2006 a phased-in mandate requiring a complete transition from low sulfur diesel to ultra low sulfur diesel (ULSD) that will be complete in December 2010. While a conventional fuel, once all vehicles can use the fuel, EPA estimates that total pollution emitted from diesel vehicles will be reduced by 90%. Montgomery County, the City of Rockville, Frederick County, College Park, and Bowie have purchased ULSD along with local governments and agencies in the District of Columbia and Northern Virginia through the Washington Metro Council of Governments.

State Fiscal Effect: Based on current distributions of motor fuel taxes and assuming no distribution by the Comptroller's Office for permissible administrative deductions or refunds, motor fuel tax losses in fiscal 2009 would total approximately \$111,400 as illustrated below. This reflects a reduction in the fuel tax paid from 24.25 cents per gallon to 12.125 cents.

<u>Program</u>	<u>Statutory Distribution</u>	<u>Revenue Loss Under SB 474</u>
Chesapeake Bay 2010 Trust Fund (SF)	2.3% of first 18.5 cents	\$1,347
Transportation Trust Fund (TTF)	100% after above deductions on first 18.5 cents; 100% above 18.5 cents	110,039
Maryland Department of Transportation	70%	77,028
User Revenue (Local)	30%	<u>33,012</u>
Total		\$111,386

This estimate is based on the estimated current consumption of biodiesel fuel by local governments. Several counties and municipalities have recently or are currently testing biodiesel fuels in their fleets on a limited basis as part of a possible fleetwide switch to biodiesel.

Future year estimates are based on the recent increase in biodiesel consumption in Maryland and indications from certain counties that express a willingness to increase biodiesel consumption should the bill pass. The reduction in fuel taxes per gallon of biodiesel under the bill would be 12 cents in fiscal 2009, 10 cents in fiscal 2010, and 7 cents in fiscal 2011. To the extent that these localities switch to fleetwide use of biodiesel earlier than expected, revenue losses could be greater than estimated.

Local Effect: Exhibit 1 lists the net impact to all local governments in fiscal 2009 through 2011.

Exhibit 1
SB 474 Local Government Impact

	<u>Fiscal 2009</u>	<u>Fiscal 2010</u>	<u>Fiscal 2011</u>
Fuel Tax Payment Savings	\$111,400	\$98,000	\$80,900
Decrease in Local Highway User Revenues	33,000	29,100	24,100
Net Impact	78,400	68,900	56,800

Local governments would benefit, in the aggregate, by approximately 9 cents per gallon of biodiesel purchased in fiscal 2009, 7 cents in fiscal 2009, and 5 cents in fiscal 2010. This net benefit would be higher in counties that consume biodiesel and lower (slightly negative) in counties that do not consume biodiesel due to the minimal loss in local highway user revenues distributed from the TTF to local governments. In addition, any net benefit to a local government would likely be at least partially offset given the current premium for biodiesel.

Additional Information

Prior Introductions: Similar bills were introduced in the 2007 and 2006 sessions. HB 47 of 2007 and HB 1344 of 2006 received a favorable with amendments report from the House Ways and Means Committee, passed the House, but received an unfavorable report from the Senate Budget and Taxation Committee.

Cross File: None.

Information Source(s): Department of General Services, Comptroller's Office,
Department of Legislative Services

Fiscal Note History: First Reader - February 19, 2008
ncs/hlb

Analysis by: Michael P. Lee

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