



Oregon

John A. Kitzhaber, M.D., Governor

Department of Transportation

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DATE: February 21, 2013

TO: House Committee on Energy and Environment

FROM: Doug Kleeb
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SUBJECT: HB 2435

INTRODUCTION

ODOT recognizes the importance of using biofuels. House Bill 2435 provides an exemption from the state fuels tax for certain blended diesel products.

BACKGROUND

ODOT's fleet currently uses 37 percent B20 biodiesel. In addition to using alternative fuels, ODOT is also using plug-in hybrid and all electric vehicles and equipment to reduce overall fuel use.

One of the major revenue sources used to preserve, improve, and operate Oregon's road system comes from the taxation of motor vehicle fuel (gasoline) and use fuel (diesel, biodiesel, natural gas and propane). ODOT collects diesel tax from two classes of taxpayers: fuel stations and bulk users such as farms and commercial fleets.

WHAT THE BILL DOES

HB 2435 exempts diesel fuel blended with a minimum of 20 percent biodiesel that is derived from used cooking oil from paying the state fuel tax (\$0.30 per gallon) when the fuel is used in vehicles with a gross vehicle weight (GVW) of 10,000 pounds or less. These fuel blends would be exempt from January 1, 2014, to January 1, 2020.

ODOT'S ROLE IN IMPLEMENTATION

Current law requires licensed diesel fuel stations and bulk users (1,800) to track a variety of information about fuel products. However, they are not required to track what feedstock is used in a diesel blend. HB 2435 would require ODOT to obtain and track detailed information about the feedstock used to produce the diesel fuel, whether it is petroleum-based, the type of bio-based oil used (used cooking oil, corn oil, peanut oil, etc.), and whether a biodiesel blend is composed of at least 20 percent biodiesel derived from used cooking oil. In addition, ODOT would need information on the vehicle that uses the fuel due to the 10,000 pound weight limit. This information is essential for distinguishing whether the fuel is tax exempt under this measure. Adding these two additional reporting requirements, feedstock and vehicle weight, will increase the burdens placed on diesel fuel sellers, the bulk users and ODOT.

Furthermore, because ODOT relies on self-reporting by taxpayers for the above information, ODOT would have to implement a system to verify the accuracy of the submitted information. Lab tests are available to validate the percentage of biofuel in blended diesel.

The cost to implement and maintain a system of spot checking represents a significant fiscal impact at for two FTE at \$335,000 per biennium.

IMPACT TO STATE HIGHWAY FUND

This bill will reduce revenue to the State Highway Fund from fuel sales. There are many unknowns relating to both the market demand and to feedstock availability which make a confident estimate very problematic. Nevertheless, this bill may reduce fuel tax revenues by an estimated \$1-3 million per biennium.

ROAD USE EQUITY

A road revenue system based on use is longstanding policy in Oregon dating back to 1919 with enactment of the nation's first gas tax, followed by enactment of a ton mile tax for heavy trucks and a requirement for road cost allocation between light and heavy vehicles. The history of road funding indicates a strong legislative preference for a *user pays* revenue system. This bill would be a departure from that policy. It would allow vehicles using B20 biodiesel made from used cooking oil to use the road at no cost.

SUMMARY

HB 2435 has a fiscal impact on the Oregon Department of Transportation in order to implement the required auditing oversight. The bill would also reduce revenue to the State Highway Fund.