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FISCAL IMPACT STATEMENT

LS 6088

BILL NUMBER: HB 1032

NOTE PREPARED: Mar 17, 2005

BILL AMENDED:

SUBJECT: Use of Biodiesel Fuel in State Vehicles.

FIRST AUTHOR: Rep. Heim

FIRST SPONSOR: Sen. Heinold

BILL STATUS: 2nd Reading - 2nd House

FUNDS AFFECTED: **GENERAL**
 DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill requires the use of blended biodiesel fuel in state vehicles when feasible.

Effective Date: July 1, 2005.

Explanation of State Expenditures: As of August 31, 2004, the state owned 13,082 vehicles (cars and trucks), along with 9 motorcycles and 10 school buses. The number of these vehicles which would use the blended biodiesel fuel is not known. Biodiesel can be blended with petroleum diesel and, at present, costs about two cents more per gallon than petroleum diesel for the minimum 2% blend of this proposal.

Background Information: Biodiesel is the name of an alternative fuel produced from domestic, renewable resources. Biodiesel contains no petroleum, but it can be blended at any level (most commonly 2% to 20% by volume biodiesel) with petroleum diesel to create a biodiesel blend. It can be used in compression-ignition (diesel) engines with little or no modifications. Biodiesel is made through a chemical process called transesterification whereby the glycerin is separated from the fat or vegetable oil. The process leaves behind two products: methyl esters (the chemical name for biodiesel) and glycerin (a valuable byproduct usually sold to be used in soaps and other products). According to the National Biodiesel Board, when mixed with petroleum-based diesel fuel, the retail price for adding each additional percentage of biodiesel is estimated to cost one to two cents more per gallon. Hence, B2 (a 2% blend) costs about two cents more per gallon than petroleum diesel.

The National Biodiesel Board estimates that the national sales volume of biodiesel fuel totaled 25 million gallons in 2003, an increase of 10 million gallons over the estimated sales volume in 2002.

Explanation of State Revenues: Indiana has various state incentives (tax credits) for the production and use of biodiesel. These credits were effective January 1, 2004. The impact of the three tax credits is unknown; however, it is presumed to be relatively small. Each of the three tax credits related to the production and sale of biodiesel is capped at \$1.0 M for all taxpayers and all taxable years. The funds affected are the state General Fund and the Property Tax Replacement Fund.

Background Information on Biodiesel Tax Credits: A taxpayer that produces biodiesel at a facility located in Indiana is entitled to a credit of \$1 per gallon of biodiesel that is used to produce blended biodiesel (diesel/biodiesel blends of at least 2% biodiesel). (Reference IC 6-3.1-27)

A taxpayer that produces blended biodiesel at a facility located in Indiana is entitled to a credit of \$0.02 per gallon of blended biodiesel. Both the biodiesel blend and the biodiesel used in the blend must be produced at a facility located in Indiana. (Reference IC 6-3.1-27)

A taxpayer that is a fuel retailer and operates a service station in Indiana at which blended biodiesel is sold and dispensed through a metered pump in a taxable year is entitled to a credit of \$0.01 per gallon of blended biodiesel sold and dispensed through all the metered pumps located at a service station. (Reference IC 6-3.1-27)

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: All agencies with diesel-powered vehicles.

Local Agencies Affected:

Information Sources: Bev Thessen of the National Biodiesel Board, 1-800-841-5849; Walker, Alesia [awalker@idoa.IN.gov], 317-232-1379.

Fiscal Analyst: James Sperlik, 317-232-9866.