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**Technology, Energy &  
Communications Committee**

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**HB 1162**

**Brief Description:** Providing tax exemptions for the use of fuels and equipment used in student transportation programs.

**Sponsors:** Representatives B. Sullivan, Upthegrove, Wallace, Ormsby, Schual-Berke, Simpson, Goodman, P. Sullivan, Morrell, Rolfes and Santos.

**Brief Summary of Bill**

- Provides student transportation programs with tax incentives to encourage the use of biodiesel and other alternative fuel vehicles.
- Provides student transportation programs with special fuel tax exemptions on all other fuels.

**Hearing Date:** 1/30/07

**Staff:** Scott Richards (786-7156).

**Background:**

**Biodiesel**

Biodiesel is a non-petroleum diesel fuel produced from renewable resources such as vegetable oils, animal fats, and recycled cooking oils. It can be blended at any percentage with petroleum diesel or used as a pure product (neat diesel). Like petroleum diesel, biodiesel operates in compression-ignition engines.

According to the United States Department of Energy, biodiesel blends of up to 20 percent biodiesel can be used in nearly all diesel equipment with little or no engine modifications. Higher blends can also be used in many engines built since 1994 with little or no engine modification.

**Special Fuel Tax**

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

The purpose of the Special Fuels Tax Act is to impose a tax upon all fuels not taxed under the Motor Vehicle Fuel Tax Act used for the propulsion of motor vehicles upon the highways of this state

The state's special fuel tax on biodiesel is 34 cents a gallon.

### **Natural Gas and Liquefied Petroleum Gas**

Motor vehicles may also use as an alternative fuel natural gas (compressed or liquid) or liquefied petroleum gas (propane). An annual license fee in lieu of the special fuel tax is imposed upon the use of natural gas or on liquefied petroleum gas which is used in any motor vehicle. In 1983, the annual license fee was established, ranging from \$45 to \$250, depending on the vehicle's gross weight. Since 1983, additional fuel taxes have been added to the annual license fee, resulting in a fee ranging from \$116.25 to \$645.00, depending on the vehicle's gross weight.

### **Retail Sales and Use Taxes**

The state retail sales tax rate is 6.5 percent and is imposed on the retail sale of most items of tangible personal property and some services. Sales tax is paid by the purchaser and collected by the seller. Sales tax revenue is deposited in the State General Fund.

The use tax is imposed on the use of an item in this state when the acquisition of the item has not been subject to sales tax. The use tax applies to items purchased from sellers who do not collect sales tax, items acquired from out-of-state, and items produced by the person using the item. Use tax is equal to the sales tax rate multiplied by the value of the property used. Use tax is paid directly to the Department of Revenue. Use tax revenue is deposited in the State General Fund.

### **Summary of Bill:**

#### **Special Fuels Tax Exemption**

Beginning July 1, 2007, every student transportation program, whether operated by a school district or a commercial chartered bus service, is exempt from paying the Special Fuel Tax on the following:

- the biodiesel fuel portion of a biodiesel blend;
- natural gas; and
- liquefied natural gas.

A biodiesel blend is fuel that contains at least 20 percent biodiesel fuel by volume. Biodiesel fuel must meet the testing and material specification D6751 set by the American Society of Testing Materials.

Between fiscal year (FY) 2006 and 2015, every student transportation program, whether operated by a school district or a commercial chartered bus service, is exempt from paying the Special Fuel Tax on all other fuels. The exemption starting in FY 2006 is 10 percent of the tax rate and increases by 10 percent a year until FY 2015 when the exemption reaches 100 percent of the tax rate.

#### **Sales and Use Tax Exemptions**

The sales and use taxes do not apply to sales of new vehicles originally designed and equipped to operate on natural gas or liquefied petroleum gas to be used primarily as part of a student transportation program, whether operated by a school district or a commercial chartered bus service. Primarily means 50 percent of total use.

The sales and use taxes do not apply to sales and use of tangible personal property, or for labor and services rendered in respect to install, construct, repair, clean, decorate, alter, or improve property that is used to convert vehicles to operate on natural gas or liquefied petroleum gas. To qualify for the exemption, the conversion must be performed on a vehicle or engine for which a United States Environmental Protection Agency certificate of conformity or a certification from the California Air Resources Board has been issued and the vehicle must be used as part of a student transportation program, whether operated by a school district or a commercial chartered bus service.

The sales and use taxes do not apply to the sales and use of emissions control equipment, or labor and services rendered in respect to install, construct, repair, clean, decorate, alter, or improve equipment used to retrofit diesel vehicles that are used as part of a student transportation program.

Emissions control equipment means a device with an oxidation catalyst, particulate filter, crankcase ventilation filter, or other means of reducing emissions from diesel vehicles, and that has been verified under the federal Environmental Protection Agency's voluntary diesel retrofit program.

**Expiration Date**

This act expires on July 1, 2015, or July 1st of the year following the year in which the Department of Licensing (Department) estimates that the aggregate volume of alternative fuels sold at retail for vehicular purposes represents 20 percent of the aggregate volume of all fuels sold at retail for vehicular purposes.

To calculate the percentage of alternative fuel sales, the Department may use as a proxy the estimated portion of the tax base of the Special Fuels Tax relating to fuels other than diesel fuel. If exact volumes are unknown, the Department may use reasonable methods to derive estimates of volumes. To make the calculation, the Department shall convert fuel volumes to gasoline-equivalent gallons, using the method utilized by the United States Department of Energy in reporting such comparisons as of January 1, 2007.

**Appropriation:** None.

**Fiscal Note:** Requested on January 22, 2007.

**Effective Date:** The bill takes effect 90 days after adjournment of session in which bill is passed.