

SESSION OF 2006

SUPPLEMENTAL NOTE ON SENATE BILL NO. 544

As Amended by House Committee on
Transportation

Brief*

SB 544 would reduce the motor vehicle fuel tax rate on E85 fuels by \$.07 per gallon effective January 1, 2007 to \$.17 per gallon until July 1, 2020. On and after July 1, 2020, the tax on E85 fuels would be \$.11 per gallon or \$.07 below the tax on most other fuels. In addition, the bill would define E85 fuels to mean an alternative fuel that is a blend of denatured ethanol and hydrocarbon that typically contains 85 percent ethanol by volume, but at a minimum must contain 70 percent ethanol by volume and complies with ASTM specification D5798-99.

The bill also pertains to the tax paid on motor fuel or special fuels by out-of-state importers and would ensure that these taxes would be paid by such individuals.

Background

At the hearing on the bill, a spokesperson for the Kansas Corn Growers/Kansas Grain Sorghum Producers Association appeared in support of the bill. This conferee indicated that the definition of E 85 fuels contained in the bill was inaccurate and offered a more current definition of E 85 fuels. Written support for the bill was received from the Kansas Farm Bureau, the Kansas Cooperative Council, and the Association of Ethanol Processors. No person appeared as an opponent to the bill.

The Senate Committee on Agriculture amended the bill to adopt the suggested definition of E85 fuels and to make the new tax rate effective on January 1, 2007. Other amendments were technical in nature.

The fiscal note on the original bill indicates that the Department

*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.kslegislature.org>

of Revenue estimates that SB 544 would increase state expenditures, decrease state revenues, and increase the state workforce. First, the bill is expected to decrease State Highway Fund revenues by less than \$100,000 in FY 2007. To formulate this estimate, the Department of Revenue reviewed data related to ethanol blending in Kansas. The effect of this bill on ethanol blending and its availability, at the retail level, in Kansas cannot be estimated. Estimating the usage of E85 fuel is further complicated because there are very few vehicles in the state that use E85 fuel. What is known is that comparing the BTU content of E85 versus conventional fuels, users of E85 fuel would have to purchase approximately 29.0 percent more fuel to travel the same distance. For this reason, the Department estimates that the fiscal effect of implementing SB 544 would cause a \$100,000 decrease in motor fuel revenues.

The House Transportation Committee amendment was requested by the Department of Revenue and came in response to the possible outcome of a Kansas Supreme Court decision. This amendment is the provision of the bill which would ensure that the tax on motor fuels or special fuels would be paid by out-of-state importers.

The Department states that passage of this bill would require revisions to publications and a notice of the changes to retailers at a total cost of \$9,405. This bill also would require modifications to the automated tax system. The required programming for this bill by itself is expected to cost \$193,200 and would be performed by existing staff of the Department of Revenue. However, if the combined effect of implementing this bill and other enacted legislation exceeds the Department's programming resources, or if the time for implementing the changes is too short, expenditures for outside contract programmer services beyond the Department's current budget may be required.

This bill also would require the addition of 2.00 FTE positions at the Department of Revenue. These positions would be customer representatives. The associated salaries and wages would total \$88,468. The other operating expenditures needed for these positions are estimated at \$10,780. Any fiscal effect associated with enactment of SB 544 is not accounted for in The FY 2007 Governor's Budget Report.