**The Florida Senate**

# BILL ANALYSIS AND FISCAL IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

Prepared By: The Professional Staff of the Committee on Appropriations

BILL: PCS/CS/SB 560 (257568)

INTRODUCER: Appropriations Committee (Recommended by Appropriations Subcommittee on Finance and Tax); Transportation Committee; and Senator Simpson

SUBJECT: Natural Gas Motor Fuel

DATE: April 15, 2013 REVISED:

| | ANALYST | STAFF DIRECTOR | REFERENCE | ACTION |
|---|---|---|---|---|
| 1. | Price | Eichin | TR | **Fav/CS** |
| 2. | Cote | Diez-Arguelles | AFT | **Fav/CS** |
| 3. | Cote | Hansen | AP | **Pre-meeting** |
| 4. | | | | |
| 5. | | | | |
| 6. | | | | |

**Please see Section VIII. for Additional Information:**

| | | |
|---|---|---|
| A. COMMITTEE SUBSTITUTE..... | X | Statement of Substantial Changes |
| B. AMENDMENTS........................ | | Technical amendments were recommended |
| | | Amendments were recommended |
| | | Significant amendments were recommended |

## I. Summary:

PCS/CS/SB 560 directs the Office of Program Policy Analysis and Government Accountability (OPPAGA) to complete a report reviewing the taxation of liquefied petroleum gas and compressed natural gas used to power motor vehicles. The report must be submitted to the President of the Senate and the Speaker of the House of Representatives by November 1, 2013.

This bill creates an unnumbered section of the Florida Statutes.

## II. Present Situation:

**Natural Gas**

Due to increased domestic exploration and production, the supply of natural gas in the U.S. and in Florida is expanding. This additional supply translates into a significant reduction in fuel costs and increased potential for recognized environmental benefits for both the private and public sector.

When compared using equivalent units of measure, natural gas is less expensive than gasoline or diesel. In the U.S. Department of Energy's Clean Cities Alternative Fuel Price Report for October 2012, the average price for gasoline in the Lower Atlantic states was \$3.66, \$3.96 for diesel, and \$2.07 for a gasoline gallon equivalent of compressed natural gas (CNG). Natural gas, in this case, CNG[1], is clearly cheaper than diesel or gasoline. The savings in fuel costs are, of course, offset to a degree by the additional cost of a natural gas vehicle over a gasoline or diesel-powered vehicle.

Due to the substantially higher fuel usage and the larger fuel price differential associated with CNG-powered fleet trucks, the recovery of the additional cost is substantially more rapid than for standard passenger vehicles. In a study prepared for the Florida Natural Gas Vehicle Coalition (FNGVC),[2] the additional cost of a standard passenger vehicle powered by CNG, compared to a standard passenger vehicle powered by gasoline, ranges from \$7,000 to \$18,500.[3] Assuming each passenger vehicle consumes 531 gallons per year, and applying a gas-CNG price difference of \$1.74, the payback period ranges from 7.6 years to 20 years.[4]

In contrast, the additional cost of a truck powered by CNG over a diesel-powered truck is \$76,100.[5] Assuming each vehicle consumes 11,706 gallons per year and assuming a price difference of \$1.91, the payback period for conversion of a diesel-powered truck to a CNG-powered truck is only 3.4 years,[6] long before the expected useful life of a fleet truck expires. Further, reduced engine wear and extended service intervals also reduce maintenance costs for CNG-powered vehicles.[7] Thus, so long as the cost of natural gas remains low, as is expected, the cost savings on fuel can more than offset and outweigh the added price paid for the purchase of CNG vehicles, prior to the application of any government incentives.

In addition, well-recognized environmental benefits are associated with the use of natural gas.

> Natural gas, as the cleanest of the fossil fuels, can be used in many ways to help reduce emissions of pollutants into the atmosphere. Burning natural gas in the place of other fossil fuels emits fewer harmful pollutants, and an increased reliance on natural gas can potentially reduce the emission of many of these most harmful pollutants.
>
> Pollutants emitted in the United States, particularly from the combustion of fossil fuels, have led to the development of many pressing

[1] Cost factors, in general, may be different for liquefied natural gas (LNG) vehicles. See Green Truck Association website for information on CNG and LNG: http://www.greentruckassociation.com/TechnicalResources/SustainableTechnologiesforWorkTrucks/NaturalGasCNGandLNG/tabid/129/Default.aspx.

[2] Fishkind & Associates, *Economic Impact of Incentives to Facilitate Compressed Natural Gas Vehicles in Florida*, August 1, 2012.

[3] Id. at 17-18.

[4] Id.

[5] Id.

[6] Id.

[7] See Green Truck Association website for information on CNG and LNG: http://www.greentruckassociation.com/TechnicalResources/SustainableTechnologiesforWorkTrucks/NaturalGasCNGandLNG/tabid/129/Default.aspx.

environmental problems. Natural gas, emitting fewer harmful chemicals into the atmosphere than other fossil fuels, can help to mitigate some of these environmental issues. These issues include:

- Greenhouse Gas Emissions
- Smog, Air Quality and Acid Rain
- Industrial and Electric Generation Emissions
- Pollution from the Transportation Sector – Natural Gas Vehicles[8]

The FNGVC highlights the following benefits associated with the use of natural gas for fleet trucks:

- Natural gas vehicles can save a company 30 to 50 percent of its fuel costs.
- Central fuel and maintenance make fleets highly conductive to CNG fueling infrastructure.
- While it is true that Florida currently has relatively few natural gas fueling stations in place, several companies offer no-cost or low-cost options for construction and maintenance of such infrastructure.
- Maintenance on a natural gas vehicle is no more problematic and often easier than traditional diesel trucks. Mechanics can be trained quickly and easily for this purpose.
- The cost of converting to CNG is decreasing. In addition, such costs are offset by savings in direct fuel costs and possible financial incentives for the purchase of natural gas vehicles.9

The FNGVC study recommends providing incentives to convert to CNG-powered truck fleets, thereby creating a demand for the re-fueling stations and producing significant stimulation of Florida's economy.

**State Gasoline, Diesel, and Alternative Fuel Taxes**

*Motor Fuel*

Section 206.41(1), F.S., provides for the following taxes on motor fuel[10]:

- An excise or license tax of 2 cents per net gallon of motor fuel,[11] designated as the "constitutional fuel tax."
- An additional 1 cent per net gallon, designated as the "county fuel tax."
- An additional 1 cent per net gallon, designated as the "municipal fuel tax."
- An additional tax of 1 cent per net gallon may be imposed by each county, designated as the "ninth-cent fuel tax."

[8] Naturalgas.org website: http://www.naturalgas.org/environment/naturalgas.asp. Retrieved February 15, 2013.
[9] FNGVC website: http://www.fuelforjobs.com/wp-content/uploads/2012/03/Executive-Summary-FINAL1.pdf. Retrieved February 15, 2013.
[10] S. 206.01(9), F.S. defines "motor fuel" to mean "all gasoline products or any product blended with gasoline or any fuel placed in the storage supply tank of a gasoline-powered motor vehicle."
[11] Section 206.01(9), F.S., defines "motor fuel" or "fuel" to mean "all gasoline products or any product blended with gasoline or any fuel placed in the storage supply tank of a gasoline-powered motor vehicle."

- An additional tax of between 1 and 11 cents per net gallon may be imposed by each county, designated as the "local option fuel tax."
- An additional tax per net gallon of motor fuel is imposed by each county, designated as the State Comprehensive Enhanced Transportation System Tax (SCETS), at a rate determined as specified in paragraph (f) of the subsection.
- An additional tax per net gallon is imposed "on the privileged of selling motor fuel", designated as the "fuel sales tax," at a rate determined as specified in paragraph (g) of the subsection.

The SCETS tax rate on motor fuel for 2013 is 5.9 cents and the fuel sales tax rate on motor fuel for 2013 is 12.9 cents.[12]

*Diesel Fuel*

Section 206.87(1), F.S., provides for the following taxes on diesel fuel:

- An excise tax of 4 cents per net gallon of diesel fuel.[13]
- An additional 1 cent per net gallon is imposed by each county, designated as the "ninth-cent fuel tax."
- An additional 6 cents per net gallon is imposed by each county, designated as the "local option fuel tax."
- An additional tax per net gallon is imposed by each county, designated as the State Comprehensive Enhanced Transportation System Tax (SCETS), at a rate determined as specified in paragraph (d) of the subsection; and
- An additional tax per net gallon "on the privilege of selling diesel fuel," designated as the "fuel sales tax," at a rate determined as specified in paragraph (e) of the subsection.

The SCETS Tax rate on diesel fuel for 2013 is 7.1 cents and the fuel sales tax rate on diesel for 2013 is 12.9 cents.[14]

Section 212.0501(5), F.S., provides that diesel fuel upon which the fuel taxes pursuant to ch. 206, F.S., have been paid is exempt from the tax on sales, use, and other transactions imposed by ch. 212, F.S.

*Alternative Fuel*

Section 206.86(4), F.S., defines "alternative fuel" to mean "any liquefied petroleum gas product or compressed natural gas product or combination thereof used in an internal combustion engine or motor to propel any form of vehicle, machine, or mechanical contrivance." The term includes all forms of liquefied petroleum gas (*i.e.*, natural gas, butane gas, propane gas) or compressed natural gas. Section 206.86(5), F.S., defines "natural gasoline" as "a liquid hydrocarbon that is

[12] Florida Department of Revenue website: http://dor.myflorida.com/dor/tips/pdf/12b05-02_chart.pdf, *2013 Florida Fuel Tax, Collection Allowance, Refund, and Pollutants Tax Rates*, retrieved February 12, 2013.
[13] Section 206.86(1), F.S., defines "diesel fuel" to mean "all petroleum distillates commonly known as diesel #2, biodiesel, or any other product blended with diesel or any product placed into the storage supply tank of a diesel-powered motor vehicle.
[14] Florida Department of Revenue website: http://dor.myflorida.com/dor/tips/pdf/12b05-02_chart.pdf, *2013 Florida Fuel Tax, Collection Allowance, Refund, and Pollutants Tax Rates*, retrieved February 12, 2013.

produced by natural gas and must be blended with other liquid petroleum products to produce motor fuel."

Section 206.877, F.S., requires owners or operators of motor vehicles licensed in this state which are powered by alternative fuels to pay, in lieu of the diesel fuel taxes imposed by s.206.87(1)(a)-(d) , an annual decal fee on each such motor vehicle in accordance with the rate schedule specified in that paragraph. In addition, the sale of alternative fuel is subject to sales tax imposed under ch. 212, F.S.[15]

The Department of Revenue (DOR) issues an annual decal to be attached to the upper right corner of the front windshield on the motor vehicle for which the decal is issued, and it is unlawful to operate a vehicle that is required to have a decal unless the vehicle is titled outside the state. Each sale of alternative fuel placed in a motor vehicle displaying a decal must be documented on an invoice that includes the decal number, the motor vehicle license number, and the number of gallons placed into the motor vehicle. Any person who puts or causes to be put liquefied petroleum gas or compressed natural gas into a motor vehicle required to have a decal is guilty of a first degree misdemeanor unless the vehicle has the required attached decal. A state or local governmental agency is not required to obtain a decal and pay the annual decal fee for motor vehicles powered by alternative fuel and operated by the state or local governmental agency.

Section 206.89, F.S., provides that a person may not act as a retailer of alternative fuel unless he or she holds a valid retailer of alternative fuel license issued by DOR, and any person acting as such who does not hold a license must pay a penalty of 25% of the tax assessed on the total purchases. A filing fee of $5 is required at the time of filing an application for a license. Terminal suppliers, importers, and wholesalers must also provide a specified bond that must be filed with DOR to ensure payment to the state of the amount of tax, any penalties, and interest. Every person who operates as a retailer of alternative fuel, except those licensed under ch. 206, F.S., including a state agency, federal agency, municipality, county, or special district, must report monthly to DOR and pay tax on all fuel purchases.

The revenues from the state alternative fuel fees imposed by s. 206.877, F.S., are deposited into the State Alternative Fuel User Fee Clearing Trust Fund. After deducting the specified service charge, the proceeds from state alternative fuel fees are distributed as follows:

- One-half of the proceeds to the State Transportation Trust Fund (STTF).
- 50 percent of the remainder to the State Board of Administration for distribution in accordance with the Florida Constitution.
- 25 percent of the remainder to the Revenue Sharing Trust Fund for Municipalities.
- 25 percent of the remainder to the counties for specified public transportation purposes, distributed in accordance with s. 206.60(1), F.S.

The revenues from the local alternative fuel fees imposed in lieu of s. 206.87(1)(b) or (c), F.S., are to be deposited into the Local Alternative Fuel User Fee Clearing Trust Fund. After deducting specified service charges, the proceeds are returned monthly to the appropriate county.

[15] Fla. Admin. Code R. 12A-1.059.

## III. Effect of Proposed Changes:

The bill directs the Office of Program Policy Analysis and Government Accountability (OPPAGA) to complete a report reviewing the taxation of liquefied petroleum gas and compressed natural gas used to power motor vehicles.

The report will:

- Evaluate growth trends in the use of liquefied petroleum gas and compressed natural gas used to power motor vehicles.
- Survey how other states tax liquefied petroleum gas and compressed natural gas to power motor vehicles and how they provide incentives to consumers of alternative fuels.
- Survey current consumers and suppliers of liquefied petroleum gas and compressed natural gas.

The report must be submitted to the President of the Senate and the Speaker of the House of Representatives by November 1, 2013. The bill is effective upon becoming law.

## IV. Constitutional Issues:

### A. Municipality/County Mandates Restrictions:

None.

### B. Public Records/Open Meetings Issues:

None.

### C. Trust Funds Restrictions:

None.

## V. Fiscal Impact Statement:

### A. Tax/Fee Issues:

None.

### B. Private Sector Impact:

None.

### C. Government Sector Impact:

PCS/CS will require the Office of Program Policy Analysis and Government Accountability (OPPAGA) to complete the specified report.

## VI. Technical Deficiencies:

None.

## VII. Related Issues:

None.

## VIII. Additional Information:

### A. Committee Substitute – Statement of Substantial Changes:

(Summarizing differences between the Committee Substitute and the prior version of the bill.)

**Recommended CS by Appropriations Subcommittee on Finance and Tax on March 27, 2013:**
The CS replaces the provisions of the bill with a requirement that the Office of Program Policy Analysis and Government Accountability (OPPAGA) complete a report reviewing the taxation of liquefied petroleum gas and compressed natural gas used to power motor vehicles.

**CS by Transportation on February 21, 2013:**
The committee adopted a strike-all and two amendments at its meeting and incorporated them into the original bill as a committee substitute. The amendments:

- require any person who acts as a natural gas retailer and does not hold a valid natural gas fuel retailer license to pay a penalty of $200 for each month of operation without a natural gas fuel retailer license, which provision expires on December 31, 2018;
- effective January 1, 2019, require any person who acts as a natural gas fuel retailer and does not hold a valid natural gas fuel retailer license to pay a penalty of 25 percent of the tax assessed on the total purchases made during the unlicensed period;
- postpone distributions of proceeds to the STTF from the State Alternative Fuel User Fee Clearing Trust until calendar year 2019 and delay imposition of the natural gas fuel tax until January 1, 2019;
- establish a beginning date of February 2019 for natural gas fuel retailers to begin filing the monthly reports; and
- remove the natural gas fuel vehicle investment program under which 2 percent of the SCETS tax on motor fuel, diesel, and alternative fuel were to be used to provide rebates for the incremental cost or purchase of natural gas fuel vehicles.

### B. Amendments:

None.