

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION**

**April 30, 2007**

**TO:** Honorable Steve Ogden, Chair, Senate Committee on Finance

**FROM:** John S. O'Brien, Director, Legislative Budget Board

**IN RE: SB1936** by Van de Putte (Relating to exempting fuel ethanol blended with gasoline from the motor fuels tax.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for SB1936, As Introduced: a negative impact of (\$58,650,000) through the biennium ending August 31, 2009.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

**General Revenue-Related Funds, Five-Year Impact:**

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2008	(\$27,898,000)
2009	(\$30,752,000)
2010	(\$31,042,000)
2011	(\$31,667,000)
2012	(\$32,312,000)

**All Funds, Five-Year Impact:**

Fiscal Year	Probable Revenue Gain/(Loss) from <i>AVAILABLE SCHOOL FUND</i> 2	Probable Revenue Gain/(Loss) from <i>STATE HIGHWAY FUND</i> 6
2008	(\$27,898,000)	(\$83,695,000)
2009	(\$30,752,000)	(\$92,255,000)
2010	(\$31,042,000)	(\$93,127,000)
2011	(\$31,667,000)	(\$95,000,000)
2012	(\$32,312,000)	(\$96,936,000)

**Fiscal Analysis**

The bill would amend Chapter 162 of the Tax Code to provide an exemption from the gasoline tax for certain fuel ethanol.

Under the bill, the gasoline tax would not apply to the volume of fuel ethanol blended together with taxable gasoline when the finished product sold or used was clearly identified on the sales invoice as a combination of gasoline and fuel ethanol.

The bill would take effect September 1, 2007.

**Methodology**

This note is based upon analyses made by the Comptroller's Office.

Currently, the volume of fuel ethanol blended with taxable gasoline is subject to the gasoline tax of 20 cents per gallon. A determination was made of the gallons of fuel ethanol that are currently blended with taxable gasoline in Texas. Both the fuel ethanol used in Environmental Protection Agency (EPA) designated ozone nonattainment areas as well as the fuel ethanol used in the entire state in E-85 motor fuel were used in the determination of total gallons. E-85 is an alcohol fuel mixture that typically contains a mixture of up to 85 percent denatured fuel ethanol and gasoline. An allowance was made for the growth in use of fuel ethanol. The 20 cents per gallon tax rate was applied to the effected gallons of fuel ethanol.

The estimate for fiscal 2008 was adjusted for the statutory lag in motor fuel tax remittances. The change in revenues was then subjected to the statutory allocation of gasoline taxes.

**Note:** As of March 14, 2007, the metropolitan statistical areas of San Antonio and Austin-Round Rock have been designated by the Texas Commission on Environmental Quality Office of Policy and Regulatory Development as "near-ozone nonattainment areas." It is uncertain which near-nonattainment areas, if any, will ultimately be designated by the EPA as nonattainment areas. However, if both San Antonio and Austin-Round Rock received an EPA designation as nonattainment areas and had to begin using gasoline oxygenated with fuel ethanol, the losses in gasoline tax revenue to the state shown below would increase by \$33 million in 2008, \$33.3 million in 2009, \$33.6 million in 2010, \$34.2 million in 2011, and \$34.8 million in 2012. These amounts would be subject to the statutory gasoline tax allocation.

### **Local Government Impact**

No fiscal implication to units of local government is anticipated.

**Source Agencies:** 304 Comptroller of Public Accounts

**LBB Staff:** JOB, SD, CT