



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2009 Biennium

Bill #	HB0822	Title:	Generally revise biodiesel and ethanol laws
Primary Sponsor:	Reinhart, Michele	Status:	As Amended in House Committee

- Significant Local Gov Impact
 Needs to be included in HB 2
 Technical Concerns
 Included in the Executive Budget
 Significant Long-Term Impacts
 Dedicated Revenue Form Attached

FISCAL SUMMARY

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
Expenditures:				
General Fund	\$0	\$2,500	\$39,940	\$35,312
Revenue:				
General Fund	\$0	(\$52,500)	(\$1,285,200)	(\$2,142,000)
Net Impact-General Fund Balance:	<u>\$0</u>	<u>(\$55,000)</u>	<u>(\$1,325,140)</u>	<u>(\$2,177,312)</u>

Description of fiscal impact:

This bill would provide a credit against individual income tax or corporation license tax for expenditures of up to \$500 per year on biodiesel. This will reduce general fund revenue by less than \$100,000 per year in FY 2009, increasing to \$1.3 million in FY 2010, and increasing to nearly \$2.2 million in FY 2011

FISCAL ANALYSIS

Assumptions:

1. This bill would provide a credit for expenditures of up to \$500 per year on biodiesel, for 2008 through 2013. Individuals may take the credit against individual income tax. Businesses with fewer than 16 employees may take the credit but must reduce its deduction for fuel purchased as a business expense by the amount of credit claimed. Corporations may take the credit against their corporation license tax liability. Small business corporations, partnerships, and limited liability companies are to apportion the credit among their owners.
2. There are several proposals to build biodiesel plants in Montana. It appears likely that three plants will begin operation during 2008 and 2009. Production will be 125,000 gallons in 2008 and 10.2 million gallons per year beginning in 2009. (Department of Environmental Quality)

3. Given the location of the proposed plants, it is expected that all of the 2008 production will be sold in Montana but that 70% of production in 2009 and 2010 will be sold out of state. Sales in the state are projected to be 125,000 gallons in 2008 and 3.06 million gallons per year in 2009 and 2010.
4. The average price of diesel fuel in 2008 through 2010 will be \$2.80 per gallon.
5. A significant percentage of motor fuel sold in Montana is sold to visitors and interstate trucks. Estimates range up to 50%. Only purchases by individuals and by businesses with fewer than 16 employees are eligible for the credit. A significant portion of biodiesel is expected to be sold to federal fleets and larger businesses. Taxpayers who make only a few biodiesel purchases are unlikely to claim the credit. Taxpayers who purchase more than \$500 worth of biodiesel in a year (179 gallons of pure biodiesel or 893 gallons of 20% blend) will be limited to a \$500 credit. Therefore, the credit is assumed to be claimed for 15% of production sold in state in 2008 and 2009 and for 25% of production sold in state in 2010 and later years.
6. Credits will be \$52,500 for 2008 ($15\% \times 125,000 \times \2.80), \$1,285,200 for 2009 ($15\% \times 3,060,000 \times \2.80) and \$2,142,000 for 2010 ($25\% \times 3,060,000 \times \2.80).
7. Credits will be claimed on tax returns filed in the spring following each tax year. General fund revenue will be reduced by \$52,500 in FY 2009, \$1,285,200 in FY 2010, and \$2,142,000 in FY 2011.
8. Most taxpayers will purchase biodiesel in the form of a blended fuel, consisting of 1% to 20% biodiesel combined with conventional diesel fuel. For blended fuel purchases, this bill would allow a credit based on the purchase price and the percentage of biodiesel in the blend. To claim the credit, taxpayers will need to calculate, and document, the biodiesel portion of their blended fuel purchases. Because of this complexity, the Department of Revenue will need to develop a new form for this credit, with costs of \$2,500 in FY 2009.
9. The frequency of taxpayer errors in calculating this credit is likely to be relatively high. The Department of Revenue would need an additional 0.5 FTE tax examiner to process and audit returns claiming this credit. The number of taxpayers claiming the credit is likely to be small until the larger biodiesel plants come on line in 2009, so that the additional 0.5 FTE will be needed beginning in FY 2010, when 2009 tax returns are processed. Personal services costs would be \$28,356 in FY 2010 and \$29,064 in FY 2011. Operating costs would be \$5,685 in FY 2010 and \$6,247 in FY 2011. One-time costs for a computer and office equipment would be \$5,900 in FY 2010.

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
<u>Fiscal Impact:</u>				
FTE	0.00	0.00	0.50	0.50
<u>Expenditures:</u>				
Personal Services	\$0	\$0	\$28,356	\$29,064
Operating Expenses	\$0	\$2,500	\$5,685	\$6,247
Equipment	\$0	\$0	\$5,900	\$0
TOTAL Expenditures	<u>\$0</u>	<u>\$2,500</u>	<u>\$39,940</u>	<u>\$35,312</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	<u>\$0</u>	<u>\$2,500</u>	<u>\$39,940</u>	<u>\$35,312</u>
TOTAL Funding of Exp.	<u>\$0</u>	<u>\$2,500</u>	<u>\$39,940</u>	<u>\$35,312</u>
<u>Revenues:</u>				
General Fund (01)	<u>\$0</u>	<u>(\$52,500)</u>	<u>(\$1,285,200)</u>	<u>(\$2,142,000)</u>
TOTAL Revenues	<u>\$0</u>	<u>(\$52,500)</u>	<u>(\$1,285,200)</u>	<u>(\$2,142,000)</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$0	(\$55,000)	(\$1,325,140)	(\$2,177,312)

Long-Range Impacts:

1. This bill sunsets at the end of 2013. Revenue reductions from this bill will continue through FY 2014 and may be higher than in FY 2010 and FY 2011 if biodiesel sales grow over time.

Sponsor's Initials

Date

Budget Director's Initials

Date