SENATE BILL REPORT

ESHB 2326

AS REPORTED BY COMMITTEE ON TRANSPORTATION, FEBRUARY 21, 1994

Brief Description: Eliminating gasohol tax exemption.

SPONSORS: House Committee on Transportation (originally sponsored by Representatives R. Fisher, Heavey, Cooke, Schmidt, Sheldon and Springer)

HOUSE COMMITTEE ON TRANSPORTATION

SENATE COMMITTEE ON TRANSPORTATION

Majority Report: Do pass as amended.
Signed by Senators Vognild, Chairman; Skratek, Vice Chairman; Morton, Prentice, Prince, Schow, Sellar, Sheldon and Winsley.

Staff: Roger Horn (786-7839)

Hearing Dates: February 17, 1994; February 21, 1994

BACKGROUND:

In 1980 and 1981, legislation was passed that exempted alcohol used in motor fuel from the motor fuel tax. The legislation also provided a tax credit of 60 percent of the amount of tax exempted if the alcohol/gasoline mixture (gasohol) contains at least 9.5 percent alcohol by volume.

The gasohol exemption and credit were scheduled to sunset in 1992, but were extended to 1999 in legislation passed during the 1991 legislative session. ESB 5342, passed in 1993, limits the exemption and credit to fuel containing alcohol produced by a manufacturer that sold less than eight million gallons of alcohol for use as fuel in the prior calendar year.

Pursuant to the provisions of the 1990 federal Clean Air Act amendments, the use of fuel oxygenated with alcohol or ether-based additives is now required in King, Pierce, Snohomish and Clark counties from November through February and in Spokane County from September through February. The required level of additive for oxygenation is 2.7 percent by weight which translates to about 7.7 percent by volume for gasohol.

The most common ether-based oxygenate is methyl tertiary butyl ether (MTBE) which is produced primarily from crude oil or natural gas. The gasohol exemption and credit apply to alcohol used as a feedstock in the production of an ether-based additive. Alcohol generally is not used in the production of MTBE.

The federal government provides a gasohol exemption on the 14.1 cent federal gas tax ranging from 3.0 cents to 5.4 cents per gallon depending on alcohol content.

Based on the November 1993 revenue forecast, $57 million will be claimed in gasohol exemptions and credits in the 1993-95 biennium and $70 million in the 1995-97 biennium.

SUMMARY:

The fuel tax exemption and credit for alcohol used as motor vehicle fuel is repealed. From May 1, 1994 through June 30, 1995, increased gas tax revenue resulting from the repeal is placed in the newly created gasohol exemption holding account. Revenue from the account may only be used for state highway construction. If a court finds that the bill is subject to the provisions of Initiative 601, it shall be submitted for a vote of the people at the next general election. A ballot title is provided.

SUMMARY OF PROPOSED COMMITTEE AMENDMENT:

The current law exemption and credit for alcohol used as fuel are repealed and replaced with an exemption and credit with the following provisions:

Only alcohol from a manufacturer that produced four million gallons or less of fuel alcohol in the prior year qualifies for the exemption and credit (eight million gallons under current law).

To qualify for the exemption and credit, a company that was not in continuous production during the prior year must have a fuel alcohol production capacity of four million gallons or less.

Alcohol is no longer eligible for the exemption if the producer has sold over four million gallons of fuel alcohol in the current year.

Only alcohol produced by a company whose primary feedstock is food processing waste, brewery waste, or wood and paper processing waste is eligible for the exemption.

A tax credit of 30 percent of the exemption amount is provided for fuel containing at least 10 percent alcohol (60 percent under current law).

The exemption is not allowed in all of Eastern Washington or all of Western Washington during or one month prior to an oxygenation mandate period anywhere in that region.

A distributor may not claim the alcohol exemption on more than five million gallons of qualified alcohol in a calendar year.

The amount of exemption per calendar year is capped at $5 million per calendar year. From the effective date of the bill until December 31, 1994, the cap is $2.5 million.

All gas tax revenue resulting from limiting the exemption is placed into the gasohol exemption holding account through the rest of this biennium, to be used only for state highway construction.

The bill shall be submitted for a vote of the people at the next general election if a court finds that the bill does not comply with provisions of Initiative 601. A ballot title is provided.

A sunset date of December 31, 1999, is provided (same as current law).

Appropriation: none

Revenue: none

Fiscal Note: available

Effective Date: May 1, 1994

TESTIMONY FOR:

The proposed striking amendment creates some administrative difficulties for the Department of Licensing, but these difficulties can be overcome.

TESTIMONY AGAINST:

The exemption for alcohol has been successful in increasing the amount of alcohol used as fuel. Increased gasohol use improves air quality, reduces dependence on foreign oil, stimulates economic development, and provides a market for waste products. It would be better to narrow the exemption rather than repealing it.

TESTIFIED: Richard Vind, Tom Koehler, N.W. Renewable Fuels Association (oppose House version); Mike Ryherd, Time Oil (oppose House version); Jim Wadsworth, Department of Licensing (pro)