
**Technology, Energy &
Communications Committee**

HB 1645

Brief Description: Providing incentives for the use of clean-burning alternative fuels and equipment used in student transportation programs.

Sponsors: Representatives B. Sullivan, Holmquist, Upthegrove, Dickerson, Blake, Kristiansen, Linville, Lantz, Morris, Orcutt, Lovick, Campbell, Chase, Nixon, Williams, Wood, Schual-Berke, Ormsby, Rodne, Sells, Hinkle, Simpson, Kagi, Schindler, Morrell, Kenney, P. Sullivan, Clibborn, Tom, Cody, O'Brien and Kilmer.

Brief Summary of Bill

- Provides tax incentives to encourage the use of alternative fuel vehicles as part of a student transportation program.

Hearing Date: 2/15/05

Staff: Sarah Dylag (786-7109).

Background:

Biodiesel

Biodiesel is a non-petroleum diesel fuel produced from renewable resources such as vegetable oils, animal fats, and recycled cooking oils. It can be blended at any percentage with petroleum diesel or used as a pure product (neat diesel). Like petroleum diesel, biodiesel operates in compression-ignition engines.

According to the United States Department of Energy, biodiesel blends of up to 20 percent biodiesel can be used in nearly all diesel equipment with little or no engine modifications. Higher blends can also be used in many engines built since 1994 with little or no engine modification.

The state's special fuel tax on biodiesel is 28 cents a gallon.

Natural Gas and Liquefied Petroleum Gas

Motor vehicles may also use natural gas or liquefied petroleum gas. The state's special fuel tax on natural gas and liquefied petroleum gas is 28 cents for each 100 cubic feet of compressed natural gas, measured at standard pressure and temperature. Under current law, an annual license fee in

lieu of the 28 cents a gallon shall be imposed on the use of natural gas or propane. The annual fee is \$45 to \$250, depending on the vehicles gross weight.

Retail Sales and Use Taxes

The state retail sales tax rate is 6.5 percent and is imposed on the retail sale of most items of tangible personal property and some services. Sales tax is paid by the purchaser and collected by the seller. Sales tax revenue is deposited in the State General Fund.

The use tax is imposed on the use of an item in this state when the acquisition of the item has not been subject to sales tax. The use tax applies to items purchased from sellers who do not collect sales tax, items acquired from out-of-state, and items produced by the person using the item. Use tax is equal to the sales tax rate multiplied by the value of the property used. Use tax is paid directly to the Department of Revenue. Use tax revenue is deposited in the State General Fund.

Summary of Bill:

Fuel Tax

Every student transportation program, whether operated by a school district or a commercial chartered bus service, is exempt from payment of the state's special fuel taxes if using at least 20 percent blended biodiesel, natural gas or liquified petroleum gas. If biodiesel fuel is used, it must meet the testing and material specification D 6751 set by the American Society of Testing and Materials.

Sales and Use Tax Exemptions

The sales and use taxes do not apply to sales of new vehicle originally designed and equipped to operate on natural gas or liquefied petroleum gas to be used as part of a student transportation program, whether operated by a school district or a commercial chartered bus service.

The sales and use taxes do not apply to sales and use of tangible personal property, or for labor and services rendered in respect to install, construct, repair, clean, decorate, alter, or improve property that is used to convert vehicles to operate on natural gas or liquefied petroleum gas. To qualify for the exemption, the conversion must be performed on a vehicle or engine for which a United States Environmental Protection Agency certificate of conformity or a certification from the California Air Resources Board has been issued and the vehicle must be used as part of a student transportation program, whether operated by a school district or a commercial chartered bus service.

The sales and use taxes do not apply to the sales and use of emissions control equipment, or labor and services rendered in respect to install, construct, repair, clean, decorate, alter, or improve equipment used to retrofit diesel vehicles that are used as part of a student transportation program.

Emissions control equipment means a device with an oxidation catalyst, particulate filter, crankcase ventilation filter, or other means of reducing emissions from diesel vehicles, and that has been verified under the federal Environmental Protection Agency's voluntary diesel retrofit program.

Appropriation: None.

Fiscal Note: Requested on February 18, 2005.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2005.