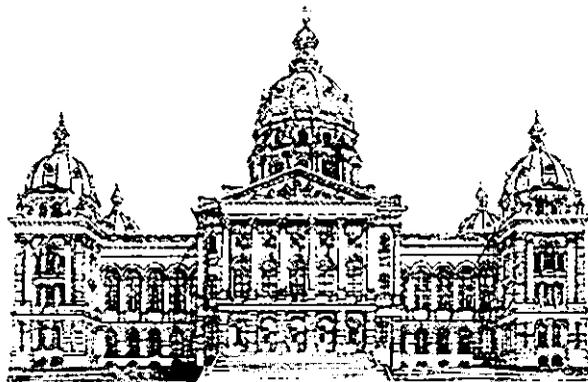


**FINAL REPORT**

**INCREASING USE OF  
MOTOR OXYGENATE ENHANCERS  
STUDY COMMITTEE**



Presented to the  
**LEGISLATIVE COUNCIL**  
and the  
**IOWA GENERAL ASSEMBLY**  
January 2000

Prepared by the  
**LEGISLATIVE SERVICE BUREAU**



Legislative  
Service Bureau

# FINAL REPORT

## Increasing Use of Motor Oxygenate Enhancers Study Committee

January 2000

### MEMBERS

Senator Merlin E. Bartz,  
Co-chairperson  
Senator Joe Bolkcom  
Senator E. Thurman Gaskill  
Senator Kay Hedge  
Senator Betty Soukup

Representative Ralph Klemme,  
Co-chairperson  
Representative Barry Brauns  
Representative Marcella Frevert  
Representative James Hahn  
Representative Dennis May

### AUTHORIZATION AND APPOINTMENT

*The Increasing Use of Motor Oxygenate Enhancers* Study Committee was created by the Legislative Council, pursuant to House File 772 (1999 Iowa Acts, ch. 204, sec. 15). The Council authorized the Study Committee to meet for not more than two days during the 1999 Interim. The Committee was charged to "study issues and make recommendations relating to the sale, use, and health and environmental effects of oxygenate enhancers contained in motor fuel..[including] both ethanol and methyl tertiary butyl ether (MTBE)."

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### I. Meeting Days.

The first meeting was held in the Chief Mahaska Room in the Atkins Memorial Union at the William Penn College in Oskaloosa, on Thursday, September 16, 1999, convening at 9:30 a.m. and adjourning at 3:30 p.m. Upon adjournment, Committee members, staff, and interested persons toured an ethanol production facility at Eddyville.

The second meeting was held in the LeMars Convention Center (Lower Level Commons) in LeMars, on October 8, 1999, convening at 10:10 a.m. and adjourning at 2:31 p.m. Following adjournment, Committee members, staff, and interested persons attended an ice cream reception and tour at the Wells Blue Bunny Welcome Center in LeMars.

### II. Testimony.

**Persons Testifying.** The Committee considered testimony presented from a number of persons, including the following: Doug Adkisson, Senior Legal Counsel, Legislative Service Bureau; David Reynolds, Senior Legislative Analyst, Legislative Fiscal Bureau; N. David Smith, North Carolina Department of Agriculture and Consumer Services; Patricia Paustian, Coordinator, Office of Renewable Fuels of Department of Agriculture and Land Stewardship; Jon Muller, Research Director, Iowa Farm Bureau Federation; Ron Litterer, President, Iowa Corn Growers Association; Professor Mike Graboski, Faculty Member, Colorado School of Mines; Eric Vaughn, President and CEO of the Renewable Fuels Association; David Smitherman, representing the American Petroleum Institute; Paul Argyropoulos, Fuel Specialist, American Petroleum Institute; Ron Marr, Managing Director of the Petroleum Marketers of Iowa; and Dawn Carlson, Vice President of Member and Government Relations of the Petroleum Marketers of Iowa.

### III. September 16, 1999, Meeting.

**Overview.** The Committee considered information presented by persons providing oral and written testimony.

**Issue Background.** Mr. Adkisson presented background information relating to regulation, taxes, and programs affecting gasoline and specifically oxygenate enhancers. Mr. Reynolds presented information concerning the history of the motor vehicle fuel tax.

**Motor Fuel Vehicle Standards.** Mr. Smith submitted written testimony regarding activities associated with the American Society for Testing and Materials (ASTM), and Iowa law which closely follows the motor fuel standards consistent with the recommendations of ASTM.

#### **Proponents of Ethanol blended Gasoline.**

Ms. Paustian provided an overview of the Office of Renewable Fuels that she heads and the benefits of using ethanol.



## Increasing Use of Motor Oxygenate Enhancers Study Committee

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Mr. Muller provided an analysis of the economic benefits of requiring that ethanol be blended into gasoline sold in this state. According to Mr. Muller, requiring the standard would increase revenue to farmers, create employment, and spur the construction of value-added agricultural manufacturing facilities.

Mr. Litterer encouraged the Committee to consider methods to promote the increased production and use of ethanol, including requiring an ethanol blended fuel requirement.

Professor Graboski discussed environmental impacts associated with using gasoline and added oxygenates, including ethanol and methyl tertiary butyl ether (MTBE). Professor Graboski discussed hazards to the environment and human safety associated with gasoline and MTBE. He stressed that using ethanol instead of MTBE decreased the presence of those hazards.

Mr. Vaughn discussed the history of the ethanol industry and its importance to states such as Iowa who have taken a lead in promoting its use, according to Mr. Vaughn. He also discussed hazards associated with MTBE and California's experience with the oxygenate.

### **Perspectives from the Petroleum Industry.**

David Smitherman responded to a number of statements made by previous presenters. He stated that the requirement that gasoline contain oxygenates should be replaced with standards for emissions. Mr. Smitherman noted that the state's requirement limiting the amount of MTBE in gasoline to 2 percent or less by volume may be challenged in court. Mr. Smitherman commented that the Department of Agriculture and Land Stewardship does not have authority to require that all retail dealers of motor fuel only sell ethanol blended gasoline (sometimes referred to as "the ethanol mandate"). He stressed that environmental contamination in California due to MTBE does not pose a significant risk in Iowa because of the requirements of the state's underground storage tank law (See Iowa Code chapter 455G). Mr. Smitherman provided an anecdotal comparison of gasoline prices between Iowa and Minnesota where a "mandate" has been in place.

Mr. Marr presented information regarding pricing of gasoline by local dealers.

### **IV. October 8, 1999, Meeting.**

**Staff Information.** Mr. Reynolds provided information comparing the average retail prices of regular grade gasoline and ethanol blended gasoline sold in Iowa, Minnesota, and the United States. According to Mr. Reynolds the prices of conventional gasoline and ethanol blended gasoline appear to follow broad economic trends rather than the implementation of legal requirements. Upon request, a chart illustrating a comparison of average regular grade gasoline prices between Iowa and Minnesota is attached.



### Perspectives from the Petroleum Industry.

Mr. Marr discussed how retail dealers establish prices for motor vehicle fuel. He noted that petroleum marketers respond to consumer demand, and opposed government attempts to mandate the inclusion of oxygenate enhancers in gasoline.

Ms. Carlson described a promotional effort by retail dealers to increase the public's awareness of ethanol blended fuels. She noted that many consumers strongly oppose using ethanol blended fuel, and stressed the importance of continuing promotional efforts rather than requiring a state mandate.

Mr. Argyropoulos discussed the use of oxygenate enhancers, including ethanol, in motor vehicle fuel in order to meet emission requirements under the federal Clean Air Act. Mr. Argyropoulos explained how motor vehicle fuel is refined, distributed, and blended with oxygenate enhancers. He discussed how the contents of motor vehicle fuel differ in geographic locations of the country, based on performance needs and the availability of certain oxygenate enhancers. He recommended that emission standards be satisfied based on performance rather than on mandating particular fuel ingredients.

## V. Committee Action.

**Discussion.** The Committee discussed a number of issues, including the pricing of motor vehicle fuels, the extent to which tax incentives are passed along to consumers, the environmental benefits of using ethanol versus methyl tertiary butyl ether (MTBE), and the economic impact of using ethanol blended gasoline.

**Proposals.** The Committee considered five separate proposals after Co-chairperson Bartz proposed a motion to adopt the five proposals together. The motion failed. The Committee considered the proposals individually. Proposals which were adopted were drafted as proposed legislation and are attached to this report.

### Proposals Defeated by the Committee.

1. **Senate File 400.** Co-chairperson Bartz proposed that Senate File 400 considered in the 1999 General Assembly, absent a provision providing a tax credit for businesses (as previously adopted by the Committee) be passed. The bill amends Code chapter 214A by prohibiting a person from offering for sale gasoline other than oxygenated gasoline on a retail basis. According to the bill, oxygenated gasoline would be required to have an oxygen content of at least three and five tenths percent by weight. The bill eliminates the special tax rate of 19 cents currently assessed on ethanol blended gasoline. The bill also amends Iowa Code chapter 455G by requiring the Iowa Comprehensive Petroleum Underground Storage Tank Fund Board to establish a program to reimburse the owner or operator of a site for costs necessary to store and dispense oxygenated gasoline.



## Increasing Use of Motor Oxygenate Enhancers Study Committee

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2. **Motor Vehicle Fuel Standard.** Representative Frevert proposed that Iowa Code chapter 214A be amended by establishing a motor vehicle fuel standard for gasoline. The amendment would require that gasoline offered for sale or sold in this state must contain at least three and five-tenths percent oxygen by weight, and that any exceptions to this standard be limited and based on evidence of the performance of engines using oxygenated versus unoxygenated gasoline.

### Recommendations.

The following proposals were adopted as recommendations of the committee to the General Assembly and were drafted in bill form:

1. **Congressional Resolution.** Co-chairperson Klemme proposed that the General Assembly pass a resolution requesting that the United States Congress not eliminate the oxygenate requirement in the federal Clean Air Act and that Congress and the Environmental Protection Agency cooperate in order to implement effective requirements. (Recommended resolution LSB 5648HC is attached.)
2. **Tax Credit for Businesses.** Co-chairperson Bartz proposed that a provision contained in Senate File 400 considered in 1999 by the General Assembly be approved. The provision would amend Code section 15.333, which provides for tax credits for eligible businesses. Specifically, the provision would provide that if an eligible business provides for the manufacturing of agricultural commodities into value-added agricultural products, the business may elect to fully transfer its investment tax credit to another taxpayer of the state who is a direct participant in the project. (Recommended legislation LSB 5647IC is attached.)
3. **Differential Tax Rate.** Co-chairperson Bartz proposed that the General Assembly enact legislation that would establish a ten cent differential tax rate between ethanol blended gasoline and conventional gasoline as set by a commission established in the legislation. According to Co-chairperson Bartz, the legislation would also prohibit a retail dealer or wholesale dealer from selling ethanol blended gasoline for more than the required differential price. A dealer who sells gasoline in violation of the legislation would be subject to a two cent penalty for every one cent that the dealer sold the ethanol blended gasoline above the required differential price. (Recommended legislation LSB 5089IC is attached.)

## VI. Materials Filed With the Legislative Service Bureau.

September 16, 1999, Meeting.

- A. Background statement prepared by the Legislative Service Bureau.



## Increasing Use of Motor Oxygenate Enhancers Study Committee

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- B. "Notes on the History of Iowa Fuel Tax" and "History of Iowa Motor Fuel Tax Rates," prepared by the Legislative Fiscal Bureau.
- C. "Measuring the Economic Impact of a State Fuel Quality Standard: A Dynamic Approach," prepared by Jon Muller, Iowa Farm Bureau Federation. (Copies of overhead slides.)
- D. Testimony of Ron Litterer, President, Iowa Corn Growers Association.
- E. "The Environmental Benefits of 10 Percent Ethanol Blends," prepared by Dr. Michael S. Graboski, Colorado School of Mines. (Copies of overhead slides.)
- F. "The Environmental Benefits of 10 Percent Ethanol Blends," prepared by Dr. Michael S. Graboski, Colorado School of Mines.
- G. Testimony of Eric Vaughn, President, Renewable Fuels Association.
- H. Testimony of N. David Smith, North Carolina Department of Agriculture and Consumer Services.

### October 8, 1999, Meeting.

- I. Written testimony provided by Dawn Carlson, Petroleum Marketers of Iowa.
- J. Additional written comments provided by Petroleum Marketers of Iowa, including a copy of an Attorney General's opinion relating to the Secretary of Agriculture's authority to adopt a rule requiring ethanol to be blended in gasoline sold in Iowa, and copies of items from the Des Moines Sunday Register, Quad-City Times and Cedar Rapids Gazette.
- K. Copy of overhead slide presentation, Paul Argyropoulos, American Petroleum Institute.
- L. "Comparison of Average Regular Grade Gasoline/Gasohol Retail Prices" graph and "Average Retail Fuel Price of Regular Grade Gasoline/Gasohol" chart, Dave Reynolds, Legislative Fiscal Bureau.
- M. Written proposal submitted by Representative Frevert.
- N. Senate File 400.
- O. Legislative proposal LSB 5089IC submitted by Senator Bartz.
- P. "The World of Corn 1999," National Corn Growers Association.
- Q. "Ethanol Industry Outlook, 1999 and Beyond," Renewable Fuels Association.

### VII. Attachments.

- A. Congressional Resolution (LSB 5648HC).
- B. Tax Credit for Businesses (LSB 5647IC).
- C. Differential Tax Rate (LSB 5089IC).
- D. Comparison of Average Regular Grade Gasoline/Gasohol Retail Prices.

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1 SENATE/HOUSE CONCURRENT RESOLUTION No. \_\_\_\_\_

2 (RECOMMENDED BY INCREASING USE OF

3 MOTOR OXYGENATE ENHANCERS STUDY COMMITTEE)

4 A Senate/House Concurrent Resolution to request that  
5 the Congress of the United States maintain its  
6 commitment to clean air and the ethanol industry,  
7 by maintaining the oxygenate requirement in the  
8 federal Clean Air Act that promotes the use of  
9 ethanol in reformulated gasoline and that Congress  
10 and the United States Environmental Protection Agency  
11 cooperate in order to implement effective standards.

12 WHEREAS, the federal Clean Air Act, as first  
13 enacted in 1970 and amended in 1990, forms the basis  
14 for the national air pollution control effort,  
15 including but not limited to national ambient air  
16 quality standards for major air pollutants, hazardous  
17 air pollutants standards, state attainment plans,  
18 motor vehicle emissions standards, stationary source  
19 emissions standards and permits, acid rain control  
20 measures, and stratospheric ozone protection; and

21 WHEREAS, amendments to the federal Clean Air Act  
22 are designed to reduce the toxic materials from the  
23 combustion of fossil fuels including pollution caused  
24 by vehicles that emit a variety of petroleum-based  
25 pollutants, including benzene and other aromatics,  
26 nitrogen oxides, particulate matter in the form of  
27 smoke and soot, carbon monoxide, and carbon dioxide;  
28 and

29 WHEREAS, the federal Clean Air Act requires the use  
30 of oxygenated motor vehicle fuels in order to improve

1 air quality in the nation's most polluted areas and to  
2 reduce emissions of benzene and other ozone-forming  
3 aromatic compounds associated with gasoline; and

4 WHEREAS, motor vehicle fuel including only a 10  
5 percent blend of ethanol contains 3.5 percent oxygen  
6 which enhances octane levels and provides more oxygen  
7 for fuel combustion resulting in reduced levels of  
8 hazardous emissions, thereby providing Americans with  
9 healthier air to breathe; and

10 WHEREAS, ethanol blended gasoline, unlike methyl  
11 tertiary butyl ether (MTBE), is an environmentally  
12 safe oxygenate enhancer that may be used in  
13 reformulated gasoline in order to comply with the  
14 requirements of the federal Clean Air Act; and

15 WHEREAS, in Iowa, on or after February 1, 2000, it  
16 is illegal to sell motor vehicle fuel that contains  
17 more than 2 percent of MTBE by volume; and

18 WHEREAS, the processing of corn into ethanol adds  
19 value to this nation's abundant corn crop by  
20 increasing net farm income, creating employment  
21 opportunities, increasing state and federal tax  
22 receipts, reducing this nation's dependence upon  
23 foreign nations, and reducing the federal trade  
24 deficit; and

25 WHEREAS, long-standing, bipartisan congressional  
26 support for the ethanol industry is reflected by the  
27 federal tax exemption applicable to gasoline  
28 formulated with clean-burning ethanol; NOW THEREFORE,

29 BE IT RESOLVED BY THE SENATE/HOUSE OF  
30 REPRESENTATIVES, THE HOUSE OF REPRESENTATIVES/SENATE

1 CONCURRING, That the Iowa General Assembly encourages  
2 Congress to maintain its commitment to the oxygenated  
3 fuel requirements of the federal Clean Air Act, by  
4 implementing standards in cooperation with the United  
5 States Environmental Protection Agency that ensures  
6 the increased use of ethanol blended gasoline in order  
7 to preserve the natural environment, protect the  
8 public health, reduce this nation's dependence upon  
9 foreign petroleum, and provide additional markets for  
10 domestic corn; and

11 BE IT FURTHER RESOLVED, That a copy of this  
12 resolution be sent by the Secretary of the  
13 Senate/Chief Clerk of the House of Representatives to  
14 the President of the United States and the  
15 Administrator of the United States Environmental  
16 Protection Agency; and

17 BE IT FURTHER RESOLVED, That copies of this  
18 resolution be sent by the Secretary of the  
19 Senate/Chief Clerk of the House of Representatives to  
20 the President of the Senate of the United States; the  
21 Speaker of the House of Representatives of the United  
22 States; the majority and minority leaders of the  
23 United States Senate; and the majority and minority  
24 leaders of the United States House of Representatives;  
25 and

26 BE IT FURTHER RESOLVED, That copies of this  
27 resolution be sent by the Secretary of the  
28 Senate/Chief Clerk of the House of Representatives to  
29 Iowa's congressional delegation.

30

SENATE/HOUSE FILE \_\_\_\_\_  
BY (RECOMMENDED BY INCREASING USE  
OF MOTOR OXYGENATE ENHANCING  
STUDY COMMITTEE)

Passed Senate, Date \_\_\_\_\_ Passed House, Date \_\_\_\_\_  
Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_  
Approved \_\_\_\_\_

**A BILL FOR**

1 An Act providing for the transfer of investment tax credits by  
2 businesses involved in the processing of agricultural  
3 commodities into value-added agricultural products.

4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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1 Section 1. Section 15.333, subsection 1, Code Supplement  
2 1999, is amended to read as follows:

3 1. a. An eligible business may claim a corporate tax  
4 credit up to a maximum of ten percent of the new investment  
5 which is directly related to new jobs created by the location  
6 or expansion of an eligible business under the program. Any  
7 credit in excess of the tax liability for the tax year may be  
8 credited to the tax liability for the following seven years or  
9 until depleted, whichever occurs earlier.

10 b. If an eligible business provides for the processing of  
11 agricultural commodities into value-added agricultural  
12 products, the business may fully transfer its investment tax  
13 credit to another taxpayer of the state who is a direct  
14 participant in the project.

15 c. If the eligible business is a partnership, subchapter S  
16 corporation, limited liability company, or estate or trust  
17 electing to have the income taxed directly to the individual,  
18 an individual may claim the tax credit allowed. The amount  
19 claimed by the individual shall be based upon the pro rata  
20 share of the individual's earnings of the partnership,  
21 subchapter S corporation, limited liability company, or estate  
22 or trust.

23 1A. For purposes of this section, "new investment directly  
24 related to new jobs created by the location or expansion of an  
25 eligible business under the program" means the cost of  
26 machinery and equipment, as defined in section 427A.1,  
27 subsection 1, paragraphs "e" and "j", purchased for use in the  
28 operation of the eligible business, the purchase price of  
29 which has been depreciated in accordance with generally  
30 accepted accounting principles, and the cost of improvements  
31 made to real property which is used in the operation of the  
32 eligible business and which receives a partial property tax  
33 exemption for the actual value added under section 15.332.

34 EXPLANATION

35 This bill amends Code section 15.333 which provides for tax

1 credits for eligible businesses. The bill provides that if an  
2 eligible business provides for the processing of agricultural  
3 commodities into value-added agricultural products, the  
4 business may elect to fully transfer its investment tax credit  
5 to another taxpayer of the state who is a direct participant  
6 in the project.

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SENATE/HOUSE FILE \_\_\_\_\_  
BY (RECOMMENDED BY INCREASING  
USE OF MOTOR OXYGENATE  
ENHANCERS STUDY COMMITTEE  
BILL)

Passed Senate, Date \_\_\_\_\_ Passed House, Date \_\_\_\_\_  
Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_  
Approved \_\_\_\_\_

**A BILL FOR**

1 An Act relating to the sale of motor fuel by providing for taxes  
2 and civil penalties.

3 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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1 Section 1. Section 214A.1, Code 1999, is amended by adding  
2 the following new subsection:

3 NEW SUBSECTION. 1A. "Dealer" means a retail dealer or  
4 wholesale dealer.

5 Sec. 2. Section 214A.11, Code 1999, is amended to read as  
6 follows:

7 214A.11 VIOLATIONS.

8 1. Any A person violating who violates the provisions of  
9 this chapter shall-be other than the provisions of section  
10 214A.20 is guilty of a simple misdemeanor.

11 2. A person who violates the provisions of section 214A.20  
12 is subject to a civil penalty as provided in that section.

13 Sec. 3. NEW SECTION. 214A.20 MOTOR FUEL -- PRICING.

14 1. As used in this section:

15 a. "Blended gasoline" means ethanol blended gasoline which  
16 is subject to the standard excise tax as provided in section  
17 452A.3.

18 b. "Closest differential price" means the price for any  
19 quantity of blended gasoline that a dealer sells to a  
20 purchaser that is closest to the price for the same quantity  
21 of unblended gasoline that the dealer sells to the same  
22 purchaser or a different purchaser.

23 c. "Gasoline" means blended or unblended motor vehicle  
24 fuel that is classified as gasoline by the department pursuant  
25 to section 214A.2.

26 d. "Price differential" means the difference in price  
27 between the price for any quantity of blended gasoline that a  
28 dealer sells to a purchaser and the price for the same  
29 quantity of unblended gasoline that the dealer sells to the  
30 same purchaser or a different purchaser.

31 e. "Purchaser" means a dealer or consumer who provides  
32 consideration to a dealer in return for any quantity of  
33 gasoline.

34 f. "Required differential price" means the price for any  
35 quantity of blended gasoline that a dealer sells to a

1 purchaser that is ten cents less than the price for the same  
2 quantity of unblended gasoline that the dealer sells to the  
3 same purchaser or a different purchaser.

4 g. "Sell" means to sell or offer to sell gasoline in this  
5 state for resale in this state or for use by the ultimate  
6 consumer in this state.

7 h. "Unblended gasoline" means gasoline which is not  
8 ethanol blended gasoline and is subject to the standard excise  
9 tax as provided in section 452A.3.

10 i. "Violation period" means a period ending on the date  
11 that a violation occurs and beginning ninety days earlier.

12 2. A dealer shall only sell a quantity of unblended  
13 gasoline if the dealer sells the same quantity of blended  
14 gasoline at or below the required differential price.

15 3. A dealer who violates this section is subject to a  
16 civil penalty. The civil penalty shall be calculated based on  
17 the closest differential price for which the dealer sells  
18 gasoline during a violation period. A dealer shall not be  
19 subject to more than one civil penalty during a violation  
20 period. The civil penalty shall not be for more than the  
21 amount computed pursuant to the following formula:

22 a. Calculate the total gallons of gasoline subject to the  
23 standard excise tax by taking the amount of gallons that the  
24 dealer can store on the premises where the violation has  
25 occurred during the violation period.

26 b. Determine the closest differential price that caused  
27 the violation.

28 c. Calculate the number of penalty cents, by adding two  
29 cents for each one cent from the required differential price  
30 to the closest differential price.

31 d. Multiply the total penalty cents by the total amount of  
32 gallons of gasoline subject to the standard excise tax.

33 4. a. The department shall issue an order assessing a  
34 civil penalty imposed upon a dealer who violates this section.  
35 The order shall include the amount of the civil penalty. The

1 civil penalty shall be paid within thirty days of the date the  
2 order issued by the department assessing the civil penalty  
3 becomes final, unless the person institutes a contested case  
4 proceeding as provided in chapter 17A.

5 b. A person who fails to timely pay a civil penalty  
6 assessed by a final order of the department shall pay, in  
7 addition, interest at the rate of one and one-half percent of  
8 the unpaid balance of the assessed penalty for each month or  
9 part of a month that the penalty remains unpaid.

10 c. When a dealer against whom a civil penalty is assessed  
11 under this section seeks timely judicial review of an order  
12 imposing the civil penalty as provided under chapter 17A, the  
13 order is not final for the purposes of this section until all  
14 judicial review processes are completed.

15 d. The attorney general shall institute, at the request of  
16 the department, legal proceedings in the district court for  
17 Polk county or the county in which the violation occurred in  
18 order to recover the civil penalty and any accrued interest.

19 e. The civil penalty assessed by the department and  
20 interest on the civil penalty shall be deposited in the road  
21 use tax fund as provided in section 312.1.

22 Sec. 4. Section 312.1, Code 1999, is amended by adding the  
23 following new subsection:

24 NEW SUBSECTION. 4A. Any amount of civil penalties  
25 collected pursuant to section 214A.20.

26 Sec. 5. Section 452A.2, Code Supplement 1999, is amended  
27 by adding the following new subsection:

28 NEW SUBSECTION. 11A. "Fiscal year" means the period of  
29 twelve months beginning on July 1 and ending on June 30.

30 Sec. 6. Section 452A.3, subsections 1 through 4, Code  
31 Supplement 1999, are amended to read as follows:

32 For the privilege of operating motor vehicles in this  
33 state, standard and nonstandard excise taxes are imposed on  
34 motor fuel as provided in this section.

35 ~~1. For the privilege of operating motor vehicles in this~~

1 state, ~~an~~ A standard excise tax ~~of twenty cents per gallon~~ is  
2 imposed upon the use of all motor fuel used for any purpose  
3 except as otherwise provided in this section and in this  
4 division.

5 a. For the period beginning July 1, 2000, and ending June  
6 30, 2001, the standard excise tax is twenty cents per gallon.  
7 However, the standard excise tax is nineteen cents per gallon  
8 upon the use of ethanol blended gasoline.

9 b. For the period beginning July 1, 2001, and ending June  
10 30, 2002, the standard excise tax is twenty-five cents per  
11 gallon. However, the standard excise tax is fifteen cents per  
12 gallon upon the use of ethanol blended gasoline.

13 c. On and after July 1, 2002, the standard excise tax per  
14 gallon of motor fuel and ethanol blended gasoline is  
15 established for each fiscal year by the standard motor fuel  
16 tax commission as provided in section 452A.3A.

17 2. The standard excise tax shall not be imposed on types  
18 of motor fuel provided in this subsection. A nonstandard  
19 excise tax shall be imposed as follows:

20 ~~For the privilege of operating aircraft in this state~~  
21 ~~an~~ The nonstandard excise tax ~~of eight cents per gallon is~~  
22 imposed on the use of all aviation gasoline is eight cents per  
23 gallon.

24 ~~For the privilege of operating motor vehicles in this~~  
25 ~~state, an excise tax of nineteen cents per gallon until June~~  
26 ~~30, 2007, is imposed upon the use of motor fuel containing at~~  
27 ~~least ten percent alcohol distilled from cereal grains grown~~  
28 ~~in the United States and used for any purpose except as~~  
29 ~~otherwise provided in this division.~~

30 ~~3. For the privilege of operating motor vehicles or~~  
31 ~~aircraft in this state, there is imposed an~~ The nonstandard  
32 excise tax imposed on the use of special fuel in a motor  
33 vehicle or aircraft: applies as follows:

34 (1) The tax rate on special fuel for diesel engines of  
35 motor vehicles is twenty-two and one-half cents per gallon.

1     (2) The rate of tax on special fuel for aircraft is three  
2 cents per gallon.

3     (3) On all other special fuel the per gallon rate is the  
4 same as the motor fuel tax provided in subsection 1.  
5 ~~Indelible-dye-meeting-United-States-environmental-protection~~  
6 ~~agency-and-internal-revenue-service-regulations-must-be-added~~  
7 ~~to-fuel-before-or-upon-withdrawal-at-a-terminal-or-refinery~~  
8 ~~rack-for-that-fuel-to-be-exempt-from-tax-and-the-dyed-fuel-may~~  
9 ~~be-used-only-for-an-exempt-purpose.~~

10    4. c. Per The nonstandard excise tax imposed on compressed  
11 natural gas used as a special fuel, ~~the rate of tax that~~ is  
12 equivalent to the motor fuel tax shall be of sixteen cents per  
13 hundred cubic feet adjusted to a base temperature of sixty  
14 degrees Fahrenheit and a pressure of fourteen and seventy-  
15 three hundredths pounds per square inch absolute.

16    3. Indelible dye meeting United States environmental  
17 protection agency and internal revenue service regulations  
18 must be added to motor fuel before or upon withdrawal at a  
19 terminal or refinery rack for that fuel to be exempt from tax  
20 and the dyed fuel may be used only for an exempt purpose.

21    Sec. 7. NEW SECTION. 452A.3A STANDARD MOTOR FUEL TAX  
22 COMMISSION.

23    1. A standard motor fuel tax commission is established  
24 within the department of revenue and finance.

25    2. The commission shall be composed of the following  
26 members:

27    a. The commission shall include the following voting  
28 members:

29    (1) The director of revenue and finance, or a person  
30 designated by the director representing the department, who  
31 shall serve as chairperson of the commission.

32    (2) The secretary of agriculture, or a person designated  
33 by the secretary, representing the department of agriculture  
34 and land stewardship.

35    (3) The director of the state department of

1 transportation, or a person designated by the director,  
2 representing the department.

3 (4) A person who is a supplier, who is actively engaged in  
4 selling motor fuel, and who represents persons who pay the  
5 standard excise tax pursuant to section 452A.3.

6 (5) A person representing the renewable fuels industry in  
7 this state.

8 The governor shall appoint persons other than the head of a  
9 department or a state official designated by the department  
10 head. A person appointed by the governor shall be confirmed  
11 by the senate pursuant to section 2.32. Members appointed by  
12 the governor shall serve three-year terms beginning and ending  
13 as provided in section 69.19. However, the governor shall  
14 appoint initial members to serve for less than three years to  
15 ensure members serve staggered terms. A member is eligible  
16 for reappointment. A vacancy on the commission shall be  
17 filled for the unexpired portion of the regular term in the  
18 same manner as regular appointments are made.

19 b. The commission shall include four ex officio, nonvoting  
20 members who shall be legislative members. The legislative  
21 members are two state senators, one appointed by the president  
22 of the senate, after consultation with the majority leader of  
23 the senate, and one appointed by the minority leader of the  
24 senate, after consultation with the president of the senate,  
25 from their respective parties; and two state representatives,  
26 appointed by the speaker of the house of representatives,  
27 after consultation with the majority leader of the house of  
28 representatives and with the minority leader of the house of  
29 representatives, from the majority and minority leaders'  
30 respective parties.

31 3. a. The commission shall meet on a regular basis and at  
32 the call of the chairperson or upon the written request to the  
33 chairperson of three or more voting members.

34 b. The members other than state officials or employees are  
35 entitled to receive compensation as specified in section 7E.6

1 plus actual expenses incurred in the performance of their  
2 duties.

3 c. Three voting members constitute a quorum and the  
4 affirmative vote of a majority of the voting members present  
5 is necessary for any substantive action to be taken by the  
6 commission. The majority shall not include any member who has  
7 a conflict of interest and a statement by a member that the  
8 member has a conflict of interest is conclusive for this  
9 purpose. A vacancy in the membership does not impair the  
10 duties of the commission.

11 d. The commission shall be staffed by the department of  
12 revenue and finance.

13 4. The commission shall establish a standard excise tax on  
14 motor fuel as provided in section 452A.3.

15 a. The commission shall establish two rates for the  
16 standard excise tax, depending on whether the motor fuel is  
17 ethanol blended gasoline. The rate for motor fuel that is  
18 ethanol blended gasoline shall be ten cents less than for  
19 motor fuel that is not ethanol blended gasoline. The rates  
20 shall be calculated in order to ensure that the total amount  
21 in standard excise taxes collected on motor fuel including  
22 ethanol blended gasoline is equal to the amount that would be  
23 collected if the motor fuel were taxed at twenty cents per  
24 gallon regardless of whether the motor fuel is ethanol blended  
25 gasoline. The commission shall not impose a standard excise  
26 tax on motor fuel that is less than ten cents or more than  
27 thirty cents.

28 b. The commission shall regularly review the amount of  
29 standard excise taxes that are collected on motor fuel  
30 including ethanol blended gasoline. Not later than the first  
31 day of May of each year, the commission shall determine if the  
32 proposed amount of the standard excise tax on motor fuel  
33 including ethanol blended gasoline for the next fiscal year  
34 should be changed. The commission shall make any changes in  
35 the previous fiscal year's rates in order to comply with this

1 subsection. The department of revenue and finance shall adopt  
2 rules establishing any change in the rates in accordance with  
3 chapter 17A. Changes in the rates shall become effective on  
4 the following first day of July.

5 5. On the second day after the convening of each regular  
6 session of the general assembly, the department shall file a  
7 report with the general assembly summarizing the proceedings  
8 of the commission during the fiscal year, including any  
9 findings supporting a change in the excise tax rates for the  
10 previous fiscal year, and projections regarding changes in  
11 excise tax rates for the subsequent fiscal year.

12 Sec. 8. DIRECTIONS TO CODE EDITOR. The Code editor is  
13 directed to change the name of "motor vehicle fuel" to "motor  
14 fuel" wherever it appears in Code chapters 214 and 214A.

15 EXPLANATION

16 This bill amends provisions relating to the tax on motor  
17 fuel. Currently, motor fuel is subject to an excise tax of 20  
18 cents. There are a number of exceptions, including ethanol  
19 blended gasoline which is taxed at a rate of 19 cents. The 19  
20 cent rate expires on June 30, 2007.

21 This bill provides that beginning on July 1 2001, and  
22 ending June 30, 2002, the standard excise tax is 25 cents per  
23 gallon. Gasoline blended with ethanol is taxed at a rate of  
24 15 cents per gallon. The bill provides that on and after July  
25 1, 2002, the excise tax per gallon of motor fuel and ethanol  
26 blended gasoline is established for each fiscal year by a  
27 standard motor fuel tax commission as provided in the bill.

28 The standard motor fuel tax commission is established  
29 within the department of revenue and finance, and includes a  
30 number of voting and nonvoting members. The voting members  
31 include the director of revenue and finance, who serves as  
32 chairperson of the commission; the secretary of agriculture;  
33 the director of the state department of transportation; a  
34 person who is a supplier who is actively engaged in selling  
35 motor fuel; and a person representing the renewable fuels

1 industry in this state. The departmental heads may appoint  
2 designees to serve in their stead. The governor must appoint  
3 the other persons. The bill provides procedures relating to  
4 the appointments, how meetings are conducted, and  
5 reimbursement for members' expenses. According to the bill,  
6 four members of the general assembly serve as nonvoting, ex  
7 officio members, and the commission is staffed by the  
8 department of revenue and finance.

9 The bill provides that the commission must establish two  
10 rates for the excise tax on motor fuel, depending on whether  
11 the motor fuel is ethanol blended gasoline. The rate for  
12 motor fuel that is ethanol blended gasoline must be 10 cents  
13 less than for motor fuel that is not ethanol blended gasoline.  
14 The bill provides that the rates must be calculated in order  
15 to ensure that the total amount in standard excise taxes  
16 collected on motor fuel including ethanol blended gasoline is  
17 equal to the amount that would be collected if the motor fuel  
18 were taxed at 20 cents per gallon regardless of whether the  
19 motor fuel is ethanol blended gasoline. The commission cannot  
20 impose a standard excise tax on motor fuel that is less than  
21 10 cents or more than 30 cents. The bill requires the  
22 commission to regularly review the amount of excise taxes that  
23 are collected on motor fuel including ethanol blended  
24 gasoline. The commission must annually determine if the  
25 proposed amount of the excise tax on motor fuel including  
26 ethanol blended gasoline for the next fiscal year should be  
27 changed. The commission may make changes for the next fiscal  
28 year implemented through the adoption of rules by the  
29 department of revenue and finance.

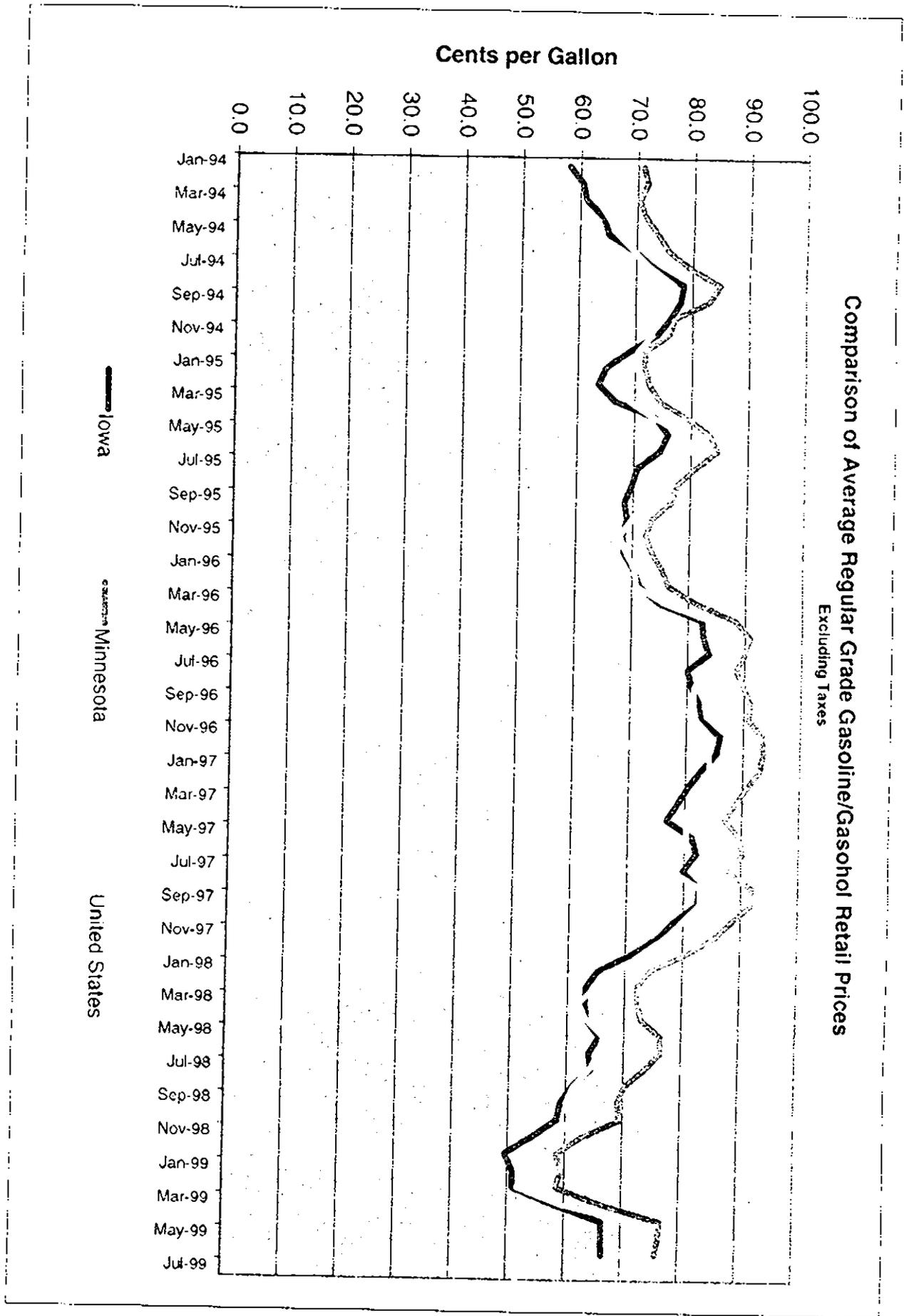
30 Finally, the bill provides that wholesale and retail  
31 dealers cannot charge a difference in ethanol blended gasoline  
32 and unblended gasoline of less than 10 cents. The dealer can  
33 only sell a quantity of unblended gasoline, if the dealer  
34 sells the same quantity of blended gasoline at or below the  
35 required differential price. A dealer who violates this

1 provision is subject to a civil penalty. The maximum amount  
2 of the civil penalty equals two cents for each one cent that  
3 the dealer charged above the required differential price  
4 during the last 90 days on all gallons of gasoline that may be  
5 stored on the dealer's premises. A dealer is not subject to  
6 more than one civil penalty during the 90-day period. The  
7 department of agriculture and land stewardship must issue an  
8 order against a dealer who violates the pricing provision.  
9 The bill provides that the attorney general is responsible for  
10 collecting the civil penalty.

11 The bill provides that the Code editor is directed to  
12 change the term "motor vehicle fuel" to "motor fuel" wherever  
13 it appears in Code chapters 214 and 214A.

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Comparison of Average Regular Grade Gasoline/Gasohol Retail Prices  
Excluding Taxes



Source: Energy Information Administration; Petroleum Marketing Monthly

Legislative Fiscal Bureau