



MINUTES

Fuel Distribution Percentage Formula Review Committee

Friday, December 6, 2024

MEMBERS PRESENT

Senator Mike Klimesh, Co-chairperson
Senator Todd E. Taylor
Senator Dan Zumbach

Representative Brian Best, Co-chairperson
Representative Dean C. Fisher
Representative Adam Zabner

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I. Procedural Business

Call to Order and Adjournment. The meeting of the Fuel Distribution Percentage Formula Review Committee was called to order by temporary Co-chairperson Best at 1:02 p.m., Friday, December 6, 2024, in Room 102 of the State Capitol. The meeting was adjourned at 1:42 p.m.

Election of Permanent Co-chairpersons. Members of the committee unanimously elected temporary Co-chairpersons Klimesh and Best as permanent Co-chairpersons.

Adoption of Rules. Members of the committee adopted procedural rules that are available on the committee's website.

Opening remarks. Co-chairperson Klimesh stated that he looks forward to the committee's discussion and Co-chairperson Best echoed Co-chairperson Klimesh's sentiments.

II. Iowa Department of Transportation

Mr. Stuart Anderson, Transportation Development Division Director, DOT, provided an overview of the variable tax rates for ethanol and biodiesel. Mr. Anderson noted that the state fuel tax rates prior to July 1, 2002, were 20 cents per gallon for gasoline and 19 cents per gallon for ethanol-blended gasoline. As more consumers shifted to using ethanol-blended gasoline, there was a corresponding reduction in Road Use Tax Fund (RUTF) revenue. In response, the General Assembly established the variable tax rate in 2002 to incentivize increased use of ethanol-blended gasoline while preventing further RUTF revenue losses. The ethanol variable tax rate became effective on July 1, 2002, and the rate is adjusted annually on July 1 based on the previous calendar year's ethanol distribution percentage. The ethanol distribution percentage is the amount of ethanol-blended gasoline distributed in Iowa as a percentage of the total amount of gasoline and ethanol-blended gasoline that is distributed in Iowa. The ethanol variable tax rate will currently sunset on June 30, 2030, at which point the fuel tax rate will be 30 cents per gallon for all gasoline types, irrespective of ethanol blends.

Mr. Anderson presented a table showing the variable tax rates for different distribution percentages. He noted that as the ethanol tax rate increases, the gasoline tax rate decreases, until the distribution percentage is above 95 percent at which point both ethanol and gasoline are taxed at the same rate. Mr. Anderson then presented a graph showing the ethanol distribution percentages from 2019-2024. The percentage has increased from 2019 to the present, and in 2023, was at 14.76 percent.

Mr. Anderson discussed the purpose of the biodiesel variable tax rate. As part of the 2015 fuel tax legislation, the General Assembly established a biodiesel variable tax rate to incentivize the use of biodiesel at blends of 11 percent or greater (B-11+) and to reduce the impact on RUTF revenue as usage of B-11+ increased. The biodiesel variable tax rate became effective on July 1, 2015, and the rate is adjusted annually on July 1 based on the previous calendar year's biodiesel distribution percentage. In 2024, the variable tax rate was adjusted to be based on biodiesel blends of 20 percent or greater (B-20+). The biodiesel variable tax rate will currently sunset on June 30, 2030, at which point the fuel tax rate will be 32.5 cents per gallon for all diesel fuel. Mr. Anderson presented a table showing an overview of the biodiesel variable tax rate. He noted that in 2023, the distribution percentage, as calculated from the report of the retailers compiled by the Iowa Department of Revenue (DOR), was 14.61 percent, and the fuel tax rate for B-20+ is currently 29.5 cents per gallon. The tax rate for biodiesel increases as usage of biodiesel increases and, at 95 percent usage, both B-20+ and all other diesel fuel will be taxed at the same rate. Mr. Anderson then presented a graph showing the biodiesel distribution percentages. While



the biodiesel distribution percentage appears to decline in 2023, this is a result of the biodiesel variable tax rate changing from being based on B-11+ to B-20+.

Mr. Anderson examined the history of the variable tax rate, noting that the ethanol variable tax rate was originally established with a June 30, 2007, sunset date. This was later extended to June 30, 2012, and then extended on a year-by-year basis until 2015, at which point the ethanol variable tax rate sunset date was extended to June 30, 2020. The biodiesel variable tax rate was established in 2015 with a sunset date of June 30, 2020. In 2022, the sunset date was extended for both to June 30, 2030. In 2015, the ethanol variable tax rate was adjusted to be based on E-15+ blends, rather than E-10+, and in 2022, the biodiesel distribution percentage and reduced biodiesel tax rate began to be based on B-20+ instead of B-11+.

The committee asked what the distribution percentage for E-10+ was before the ethanol variable tax rate was adjusted to be based on E-15+ blends and whether it was likely to continue increasing. Mr. Scott Fisher, Management Analyst, Alcohol and Tax Compliance Division, DOR, stated that the distribution percent was 63.75 percent when the tax rate was adjusted. Mr. Matt Bishop, Policy Director, Sales and Excise Taxes, DOR, explained that it is likely to continue to increase as access to E-15+ blends is expanding.

III. Iowa Department of Revenue

Mr. Matt Bishop, Policy Director, Sales and Excise Taxes, DOR, and Mr. Scott Fisher, Management Analyst, Alcohol and Tax Compliance Division, DOR, presented on the taxation of renewable fuels, including the transfer of moneys to the RUTF and the method for determining the fuel distribution percentages. Mr. Fisher pointed out the effect of the variable excise tax rate on ethanol-blended gasoline, which resulted in collecting approximately \$8.9 million less than if the E-15+ gasoline was taxed at the rate for all other gasoline. He noted that during each of the previous four years, the number of gallons of E-15+ gasoline sold increased, along with the distribution percentage. Mr. Fisher next analyzed the effect of the variable excise tax rate on biodiesel, which resulted in collecting approximately \$2.7 million less than if the B-20+ was taxed at the rate for all other diesel. Mr. Fisher noted that in each of the previous four years, the distribution percentage for biodiesel exceeded 50 percent, but as a result of increasing the minimum blend from B-11+ to B-20+, the percentage dropped to below 15 percent. Mr. Fisher also noted that the variable excise biodiesel tax rate schedule was not amended when the minimum blend increased from B-11+ to B-20+.

Mr. Bishop provided a general overview of nationwide average fuel prices during the previous five-year period, noting that the recent average prices are nearing the average amounts for both gasoline and diesel from five years ago, following a period of volatility during and after the COVID-19 pandemic. Additionally, he spoke to the recent legislative efforts relating to improving the E-15 access standard and promoting the installation of conforming fuel pumps at retail locations, and the state and federal cost-share assistance programs and applicable timeline. In 2022, legislation was passed requiring retailers to offer E-15 by 2026. In 2024, the legislature extended the deadline to 2030.

Mr. Fisher stated that a new type of fuel is being used in different parts of the country, which is termed “renewable diesel.” Renewable diesel meets the American Society for Testing and Materials’ standard for petroleum diesel but does not have the same fuel tax rate as biodiesel even though it is made from the same feedstocks. If someone delivered renewable diesel in Iowa, it would be reported and taxed as regular petroleum diesel at the higher fuel tax rate rather than the rate for biodiesel. Today, there is no way to identify and report renewable diesel differently from petroleum diesel.



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Prior to 2020, the distribution percentage was based on gallons distributed in a calendar year as calculated using the DOR monthly fuel delivery reports. The reports were based on the gross number of gallons of fuel delivered by licensed suppliers, blenders, and importers. The difference in data from the monthly delivery reports compared to actual consumer use resulted in inaccurate calculation of the distribution percentage and loss of revenue to the RUTF. Beginning in 2020, the Retailers Fuel Gallons Annual Report, which is also compiled by the DOR, began to be used. The annual retailers report compiles information and data from sales of fuel at the pump as reported by retailers from across the state. Fuel blending happening downstream from the terminal is accurately represented in the annual retailers report. Beginning in 2022, retailers are subject to a \$100 penalty for a late or non-filed report. In 2023, the DOR had a response rate of 84 percent, which is an increase from the 71 percent response rate in 2022. The DOR is attempting to take a more proactive approach by reaching out to non-filing retailers to remind them to file the report due January 2025.

The committee inquired about the details of non-filing retailers. Mr. Fisher explained that the DOR is comparing the locations of the pumps that the Weights and Measures Bureau of the Iowa Department of Agriculture and Land Stewardship test to determine if those retailers are filing the annual report with the DOR. Mr. Bishop stated that some retailers have gone out of business or transferred their business, too, so the DOR is attempting to update its data to accurately reflect who is selling fuel in Iowa. Mr. Fisher stated that the DOR is using the list of those doing business in Iowa compiled by the Iowa Division of Labor to update the DOR's list.

IV. Public Comment

The committee received a public comment through submission in writing from Mr. Nathan Hohnstein, Policy Director, Iowa Renewable Fuels Association.

V. Committee Discussion

Co-chairperson Best asked if there were any recommendations from the DOR or the DOT. Mr. Anderson stated that the variable excise tax rates on renewable fuels have helped reduce additional losses to the RUTF and that the DOT has no recommendations for modifications. Mr. Bishop stated that the E-15 tiers are working well but suggested that the legislature review the biodiesel variable excise tax schedule to account for B-20+ biodiesel sales, rather than B-11+ biodiesel sales.

The committee agreed to forward the committee's final report to the General Assembly for further consideration.

VI. Materials Filed with the Legislative Services Agency

The following materials listed were distributed at or in connection with the meeting and are filed with the Legislative Services Agency. The materials may be accessed from the "Committee Documents" link on the committee's Internet site:

www.legis.iowa.gov/committees/meetings/documents?committee=33680&ga=ALL

1. Meeting Briefing
2. Committee Rules
3. Presentation: Iowa Department of Transportation and Iowa Department of Revenue
4. Public Comment: Nathan Hohnstein, Policy Director, Iowa Renewable Fuels Association