



Fuel Distribution Percentage Formula Review Committee September 20, 2019



Presenters

- Iowa Department of Transportation
 - Mark Lowe, Director
 - Shawn Majors, Program Management Bureau
- Iowa Department of Revenue
 - Tim Reilly, Policy Director for Sales and Excise Tax
 - Scott Fitzgerald, Statistical Research Analyst





- Purpose/overview of variable tax rate
 - Ethanol
 - Biodiesel
- History of variable tax rate
- Impact of variable tax rate over the last six-years
- Significant fuel price changes over the last six-years
- Advances in technology E15
- Summary of issues
 - Taxation of renewable diesel
 - Determination of ethanol and biodiesel (B11+) distribution percentage



Purpose of Ethanol Variable Tax Rate

- State fuel tax rates prior to July 1, 2002
 - Gasoline: 20 cents per gallon (cpg)
 - Ethanol-blended gasoline: 19 cpg
- As more users shifted to ethanol-blended gasoline, there was a corresponding reduction in Road Use Tax Fund (RUTF) revenue.
- In 2002, Legislature established variable tax rate to incentivize greater ethanol usage while preventing further RUTF losses.



Overview of Ethanol Variable Tax Rate

- Effective July 1, 2002
- Fuel tax rates adjusted every July 1 based on previous calendar year "ethanol distribution percentage"
- Ethanol distribution percentage: Percentage of all gasoline and ethanol-blended gasoline sales in lowa that are ethanol-blended
- Sunsets June 30, 2020 at which point fuel tax rate is 30.0 cpg for all gasoline types

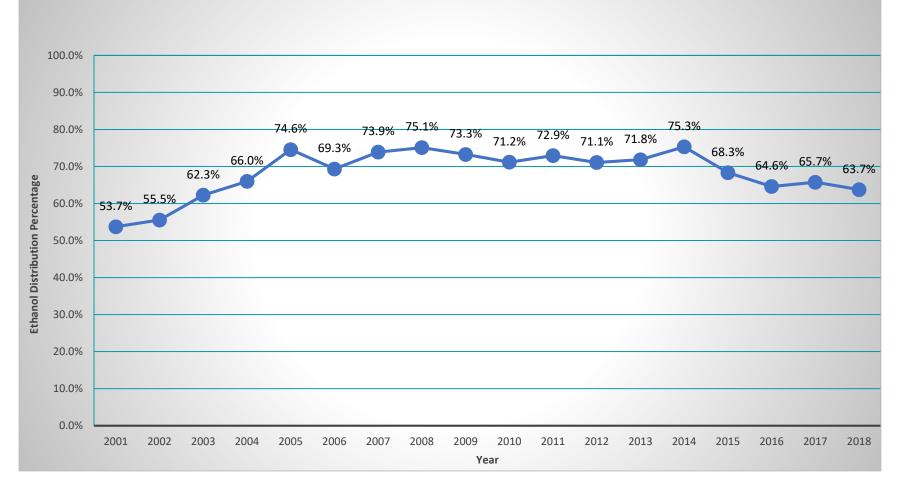


Overview of Ethanol Variable Tax Rate (cont.)

Ethanol Distribution Percentage	Ethanol-Blended Tax Rate (cpg)	Gasoline Tax Rate (cpg)
<= 50	29.0	30.0
> 50 and <= 55	29.0	30.1
> 55 and <= 60	29.0	30.3
> 60 and <= 65	29.0	30.5
> 65 and <= 70	29.0	30.7
> 70 and <= 75	29.0	31.0
> 75 and <= 80	29.3	30.8
> 80 and <= 85	29.5	30.7
> 85 and <= 90	29.7	30.4
> 90 and <= 95	29.9	30.1
> 95	30.0	30.0



Ethanol Distribution Percentage from Monthly Reports





Purpose of Biodiesel Variable Tax Rate

- State diesel tax rate prior to July 1, 2015: 32.5 cpg
- As part of the 2015 fuel tax increase legislation, the Legislature established a biodiesel variable tax rate to incentivize the use of biodiesel at blends of 11 percent or greater (B11+) and to reduce the impact on RUTF as usage of B11+ increases.



Overview of Biodiesel Variable Tax Rate

- Effective July 1, 2015
- Fuel tax rates adjusted every July 1 based on previous calendar year "biodiesel distribution percentage"
- Biodiesel distribution percentage: Percentage of all diesel and biodiesel sales in Iowa that are biodiesel blends at 11 percent or greater (B11+)
- Sunsets June 30, 2020 at which point fuel tax rate is 32.5 cpg for all diesel

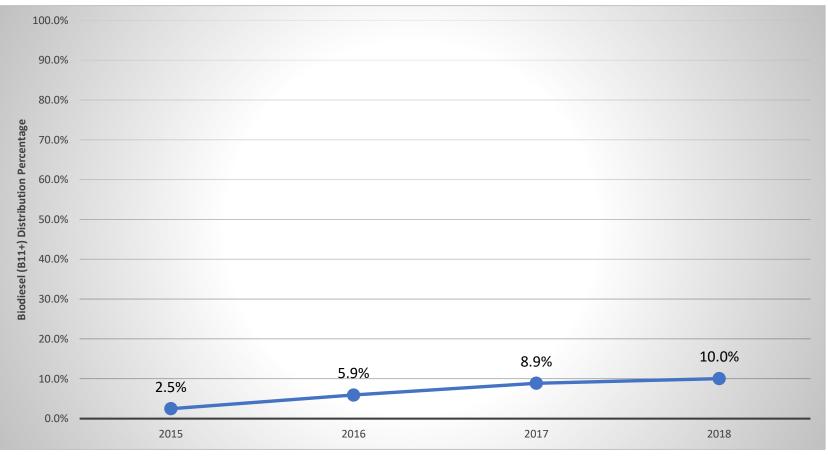


Overview of Biodiesel Variable Tax Rate (cont.)

B11+ Distribution Percentage	B11+ Tax Rate (cpg)	All other Diesel Tax Rate (cpg)
<= 50	29.5	32.5
> 50 and <= 55	29.8	32.5
> 55 and <= 60	30.1	32.5
> 60 and <= 65	30.4	32.5
> 65 and <= 70	30.7	32.5
> 70 and <= 75	31.0	32.5
> 75 and <= 80	31.3	32.5
> 80 and <= 85	31.6	32.5
> 85 and <= 90	31.9	32.5
> 90 and <= 95	32.2	32.5
> 95	32.5	32.5



Biodiesel (B11+) Distribution Percentage from Monthly Reports





History of Variable Tax Rate

- 2002: Ethanol variable tax rate established with June 30, 2007 sunset
- 2007: Sunset extended to June 30, 2012
- 2012: Sunset extended to June 30, 2013
- 2013: Sunset extended to June 30, 2014
- 2014: Sunset extended to June 30, 2015



History of Variable Tax Rate (cont.)

- 2015: As part of fuel tax increase bill
 - Ethanol variable tax rate sunset extended to June 30, 2020
 - Biodiesel variable tax rate established effective July 1, 2015 with a sunset of June 30, 2020
 - Language requiring this legislative interim committee to report by January 1, 2020 and at least every six years thereafter
- 2019: Legislation considered to adjust ethanol variable tax rate to be based on E15 and greater blends



Impact of Variable Tax Rate

- Last six-year time period (FY 2014 to 2019)
- Having a variable tax rate reduced RUTF
 revenue by approximately \$95 million
 - Ethanol variable tax rate in place entire six years.
 - Biodiesel variable tax rate in place last four years.



Significant fuel price changes

- Magellan pipeline changes in 2013
 - Stopped providing 87-octane gasoline and shifted to:
 - 84-octane gasoline, and
 - 91-octane gasoline
 - Resulted in the new standard fuel to be 87-octane ethanol-blended gasoline
 - Increased price spread between gasoline and ethanolblended gasoline
 - Increased ethanol-blended gasoline use



Advances in Technology – E15

- May 2019: EPA removed regulatory barrier to use E15 blends during summer season
- E15 can be used in any 2001 or newer vehicle
- Challenge: Compatible tank and pump infrastructure
 - E15 pumps in Iowa quadrupled since 2016 up to approximately 200*
 - Cost to upgrade existing sites to E15 can be burdensome and costly

* Source: Cedar Rapids Gazette article (7/19/19) – quote from Lucy Norton with Iowa Renewable Fuels Association



Summary of Issues

- Taxation of renewable diesel
 - Renewable diesel meets the ASTM 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 lowa today, it would be reported and taxed as regular petroleum diesel at the higher fuel tax rate rather than the rate for biodiesel
 - There is not currently a way to identify and report it differently from petroleum diesel
 - Unknown whether it is sold in Iowa yet



Summary of Issues (cont.)

- Determination of distribution percentage
 - Based on calendar year gallons from the Iowa DOR Monthly Fuel Tax Reports
 - Monthly report based on gross gallons of fuel delivered by licensed suppliers, blenders and importers
 - Monthly reports showed a significant decrease in ethanol use starting in June of 2015
 - Decrease caused by method of reporting gallons rather than a change in consumer use of ethanol



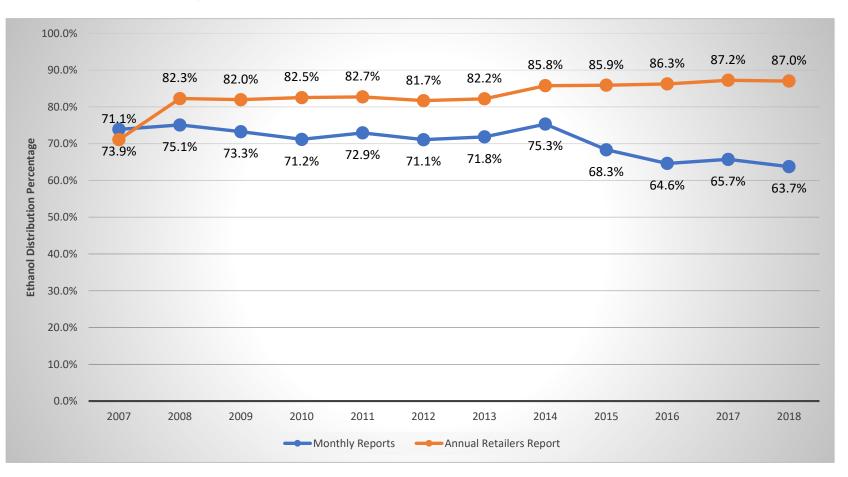
Summary of Issues (cont.)

Determination of distribution percentage (cont.)

- Difference in data from report vs. actual consumer use results in inaccurate calculation of distribution percentage and loss of revenue to RUTF
- Alternative source of information available is the Retailers Fuel Gallons Annual Report that is also compiled by Iowa DOR
- Retailers Report includes sales of fuel at the pump as reported by retailers from across the state
- Submittal of information in Retailers Report is voluntary but has a response rate of approximately 88%
- Stark differences in the percentage of ethanol usage based on each report (Monthly vs. Retailers)
- Impact to RUTF: approximately \$42 m from FY 2014 to 2019

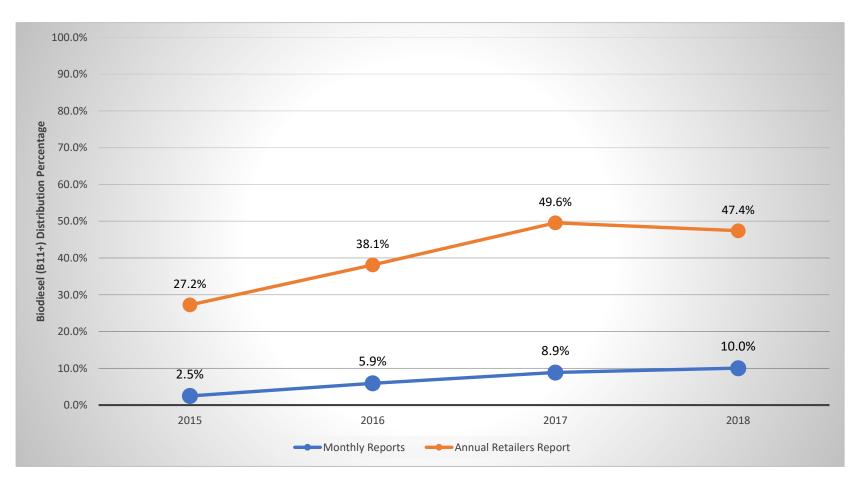


Comparison of Ethanol Distribution Percentage Monthly Report vs. Annual Retailers Report





Comparison of Biodiesel (B11+) Distribution Percentage Monthly Report vs. Annual Retailers Report



Fuel Distribution Percentage Formula Review



Questions?