

**STATE and LOCAL  
FISCAL IMPACT**

**Drafting Number:** LLS 11-0553  
**Prime Sponsor(s):** Rep. Brown

**Date:** January 27, 2011  
**Bill Status:** House Agriculture  
**Fiscal Analyst:** Jason Schrock (303-866-4720)

**TITLE:** CONCERNING THE INCLUSION OF LIQUEFIED PETROLEUM GAS CONVERSION VEHICLES IN THE LIST OF QUALIFIED VEHICLES AVAILABLE FOR EFFICIENT MOTOR VEHICLE INCENTIVES.

<b>Fiscal Impact Summary</b>	<b>FY 2010-11</b>	<b>FY 2011-2012</b>	<b>FY 2012-2013</b>
<b>State Revenue</b> General Fund	(\$280,000)	(\$580,000)	(\$500,000)
<b>State Expenditures</b> Cash Funds Alternative Fuels Rebate Fund	See State Expenditures Section		
<b>FTE Position Change</b>			
<b>Effective Date:</b> Upon signature of the Governor, or upon becoming law without his signature. The bill applies to conversions of vehicles for tax years commencing on or after January 1, 2011.			
<b>Appropriation Summary for FY 2011-2012:</b> None.			
<b>Local Government Impact:</b> See Local Government Impact section.			

**Summary of Legislation**

Starting with tax year 2011, this bill makes vehicles converted to run on liquefied petroleum gas (LPG), or propane, eligible for the state's income tax credit for alternative fuel or innovative vehicles. The bill also makes the cost of converting vehicles to run on LPG eligible for the state's alternative fuel rebate program, which is administered by the Department of Revenue. This rebate program is available to governmental and nonprofit entities that purchase alternative fuel vehicles, or convert vehicles to run on alternative fuel.

**Background.** The state has had an income tax credit and rebate program for purchases of alternative fuel vehicles (or for the cost of converting vehicles to run on alternative fuel) since the late 1990s. House Bill 09-1331 extended the credit as well as the rebate program, while making changes to the types of vehicles that qualify and the credit and rebate amounts. Existing LPG vehicles, or conversions to such vehicles, do not qualify for a credit or rebate under the changes made. However, before House Bill 09-1331, conversions of LPG vehicles were eligible for a credit and rebate.

Existing LPG vehicles are not eligible for the tax credit or rebate program under current law because they do not fit under any of the definitions of the categories of eligible vehicles. This is the case because current LPG vehicles do not meet the required emissions or fuel efficiency standards in any of the categories. Further, unlike CNG vehicle conversions, the law does not explicitly state that LPG conversions are eligible for the credit, regardless of the vehicle's emissions and fuel efficiency levels. The Department of Revenue has denied at least one tax credit to a taxpayer trying to claim the credit for the costs of converting a vehicle to run on LPG.

The alternative fuel or innovative vehicle income tax credit is based on a percentage of the additional cost of the vehicle because it runs on alternative fuel or the cost of a conversion. The percentage used depends on the type of vehicle and the year the vehicle is purchased or a conversion is made. For tax year 2011, the percentage of LPG conversions is equal to 75 percent of the cost of the conversion. The percentage used to calculate the credit declines each year, making the tax credit smaller, until the credit is no longer available after tax year 2015. Table 1 shows the percentages used to calculate the credit by tax year.

**Table 1: Percentages used to Calculate the Tax Credit under HB 11-1081**

<b>Tax Year 2011</b>	<b>Tax Year 2012</b>	<b>Tax Year 2013</b>	<b>Tax Year 2014</b>	<b>Tax Year 2015</b>
75%*	55%	35%	25%	25%

*\* For the 2011 tax year only, the percentage used to determine the credit amount for LPG converted medium duty trucks that permanently displace vehicles that are 12 years old or older is increased to 94 percent (75 percent multiplied by 1.25).*

The credit is refundable, meaning that any credit amount that exceeds a taxpayer's income tax liability is refunded to the taxpayer. The amount of each credit that can be claimed for the conversion cost is capped at \$6,000 starting with tax year 2012; there is no cap on the credit for tax year 2011. To be eligible for the tax credit, the vehicles must be titled and registered in the state.

The calculation of the rebate amount works similarly to the income tax credit. The rebate amount is based on a percentage, which declines over time, of the cost of qualifying alternative fuel vehicles, or conversions to such vehicles. For FY 2010-11, the percentage used to calculate the rebate amount is 55 percent of the LPG conversion cost.

## **State Revenue**

The bill will decrease General Fund revenue by \$280,000 in FY 2010-11 (half-year impact), \$580,000 in FY 2011-12, and \$500,000 in FY 2012-13. It will reduce General Fund revenue in subsequent fiscal years through FY 2015-16. Table 2 shows the estimated revenue impact of House Bill 11-1081 through FY 2015-16.

**Table 2. Estimated General Fund Revenue Impact of House Bill 11-1081**

<b>FY 2010-11 (half year-impact)</b>	<b>FY 2011-12</b>	<b>FY 2012-13</b>	<b>FY 2013-14</b>	<b>FY 2014-15</b>	<b>FY 2015-16</b>
(\$280,000)	(\$580,000)	(\$500,000)	(\$350,000)	(\$310,000)	(\$160,000)

This fiscal note assumes that credits will be claimed for 150 conversions in tax year 2011 and that this number will grow by about 10 percent annually. However, since the amount of the credit declines over time, the revenue impact will also decrease. An average conversion cost of \$5,000 was used to estimate the revenue impact of the credits.

Data are not currently available on the number of LPG conversions that occur each year for vehicles that are registered in Colorado. The estimates for the number of conversions and the dollar amount of the tax credits were derived from information provided from representatives from the LPG industry and the U.S. Department of Energy's Office of Energy Efficiency and Renewable Energy (EERE).

The revenue impact of this bill could be higher or lower than the estimates depending on the extent to which vehicles are converted to use LPG. This will be influenced by several factors, most notably the level of gas prices, the state of the economy, preference levels for LPG vehicles, and the extent to which the tax credit induces more LPG conversions. It will also be affected by the capacity of future infrastructure to support more LPG vehicles, most notably the number and location of LPG fueling facilities in the state.

### **State Expenditures**

**Department of Revenue, Alternative Fuel Rebate Program.** It is unknown whether this bill will cause increased expenditures for the Alternative Fuel Rebate Program due to rebates to governments and nonprofits that convert vehicles to run on LPG. This will depend on the future purchasing decisions of the qualifying entities. However, this fiscal note assumes that any increase in expenditures will be minimal.

### **Local Government Impact**

The bill expands eligibility for the alternative fuels rebate program. Local governments that participate in the program will receive rebates, and thus reduced costs, for any vehicles in their fleet that they convert to run on LPG.

**State Appropriations**

This fiscal note implies that no change in appropriations is needed as a result of the bill. The Department of Revenue has been appropriated \$310,601 for the Alternative Fuels Rebate program from the Alternative Fuel Rebate Fund annually since FY 2004-05, including for FY 2010-11. It is assumed that any additional expenditures as a result of this bill can be paid for within the department's existing spending authority for FY 2010-11 and that the historical annual level of appropriations will not need to increase for FY 2011-12.

**Departments Contacted**

Personnel and Administration          Revenue