

**STATE and LOCAL  
FISCAL IMPACT**

**Drafting Number:** LLS 09-0862  
**Prime Sponsor(s):** Rep. Gagliardi  
 Sen. Boyd

**Date:** April 20, 2009  
**Bill Status:** House Transportation & Energy  
**Fiscal Analyst:** Jason Schrock (303-866-4720)

**TITLE:** CONCERNING INCENTIVES FOR EFFICIENT MOTOR VEHICLES.

| <b>Fiscal Impact Summary</b>   | <b>FY 2009-2010</b> | <b>FY 2010-2011</b>            |
|--|---------------------|--------------------------------|
| <b>State Revenue</b><br>General Fund   | (\$400,000)         | \$1,400,000                    |
| <b>State Expenditures</b><br>Cash Funds<br>Alternative Fuels Rebate Fund                     | \$189,399           | See State Expenditures Section |
| <b>FTE Position Change</b>   |                     |                                |
| <b>Effective Date:</b> Upon signature of the governor or becoming law without his signature. |                     |                                |
| <b>Appropriation Summary for FY 2009-2010:</b> See State Appropriations Section.             |                     |                                |
| <b>Local Government Impact:</b> See Local Government Section.                                |                     |                                |

**Summary of Legislation**

This bill makes changes to the types of vehicles that qualify for the existing state income tax credit for the purchase of alternative fuel vehicles, conversion of existing vehicles to allow for the use of alternative fuels, or replacement of a vehicle's power source with a power source that uses an alternative fuel. It also changes the tax credit amount for certain types of alternative fuel vehicles. The credit, like under current law, expires after the 2011 tax year. The bill creates a new tax credit for tax years 2012 through 2015 for the same types of alternative fuel vehicles. The bill makes similar changes to the state's alternative fuel rebate program available to governmental and nonprofit entities.

**Tax Credit for Alternative Fuel Vehicles.** Under current law, the amount of the alternative fuel vehicle tax credit available for purchases of alternative fuel vehicles is a percentage of the difference between the cost of the vehicle and the cost of the same or most similar vehicle (the incremental cost) that uses a traditional fuel. For vehicles converted to an alternative fuel vehicle, the credit is a percentage of the cost of the conversion. For vehicles that have their power source replaced, the credit is a percentage of the incremental cost of such replacement. The percentages used to calculate the amount of the credit depend on the emissions level of the vehicle and the year in which the purchase is made. In FY 2007-08, the alternative fuel vehicle tax credit resulted in a reduction of state income tax revenue of \$12.5 million, increasing from \$1.8 million in FY 2003-04.

This bill changes the types of vehicles and fuel technologies that are eligible for the credit and creates a new credit for tax years 2012 through 2015 that will be applicable to the same alternative fuel-related purchases. In general, compared with current law, the bill makes less fuel-efficient and higher emitting alternative fuel vehicles ineligible for a tax credit and makes other types of highly fuel-efficient, low emitting vehicles eligible that are currently not in widespread use.

Table 1 shows the categories of vehicles and fuel efficient technologies that will qualify for a tax credit under the bill. Vehicles in some of the categories must meet certain emissions standards established by the Environmental Protection Agency (EPA) or those adopted by the California Air Resource's Board (CARB) in order to qualify.

**Table 1: Categories of Alternative-Fuel Vehicles and Fuel-Efficient Technologies Eligible for a Tax Credit under HB 09-1331**

| Category | Types of Vehicles and Fuel-Efficient Technologies  |
|----------|--|
| 1        | Must meet EPA Tier 2 Bin 1 Standard or CARB Zero Emission Vehicle (ZEV) and Advanced Technology Partial-Zero Emission Vehicle (AT-PZEV) Standard<br><br><b>Example(s):</b><br>Electric Vehicles, Plug-in Hybrid Vehicles, Conversions of Hybrids to Plug-in Hybrid Vehicles, Hydrogen Fuel Cell Vehicles   |
| 2        | Diesel-electric hybrid passenger vehicles with a minimum fuel economy of 70 mpg  |
| 3        | Conversions of passenger vehicles and light and medium duty trucks to diesel-electric hybrid vehicles that increase the vehicle's fuel economy by 40% or more  |
| 4        | Passenger vehicles and light and medium duty trucks that use compressed natural gas (CNG) or that are converted to use CNG   |
| 5        | Idling reduction technologies which allow heavy-duty diesel engines to refrain from idling over long periods when stationary   |
| 6        | Vehicles with a minimum fuel economy of 40 mpg or mile per gallon gasoline equivalent (mpgge) that meet EPA Tier 2 Bin 2 or Bin 3 Standard or CARB Partial-Zero Emitting Vehicle (PZEV) or Super Ultra Low Emission Vehicle (SULEV) Standard<br><br><b>Example(s):</b><br>Toyota Prius, Honda Civic Hybrid |
| 7        | Vehicles with a minimum fuel economy of at least 30 mpg or mpgge but less than 40 mpg or mpgge that meet EPA Tier 2 Bin 2 or Bin 3 Standard or CARB PZEV or SULEV Standard<br><br><b>Example(s):</b><br>Ford Escape Hybrid, Toyota Camry Hybrid  |

Table 2 shows the percentages used to calculate the credit for each category of alternative-fuel vehicle or fuel-efficient technology under HB 09-1331 from tax years 2010 through 2015. The percentages are used in the same way to determine the credit amount as under current law.

**Table 2: Percentages used to Calculate the Tax Credit under HB 09-1331**

| Category | Tax Years<br>2010 and<br>2011 | Tax Year<br>2012 | Tax Year<br>2013 | Tax Year<br>2014 | Tax Year<br>2015 |
|----------|-------------------------------|------------------|------------------|------------------|------------------|
| 1        | 85%                           | 75%              | 35%              | 35%              | 35%              |
| 2        | 65%                           | 45%              | 25%              | 15%              | 15%              |
| 3        | 75%                           | 55%              | 35%              | 25%              | 25%              |
| 4        | 75%                           | 55%              | 35%              | 25%              | 25%              |
| 5        | 25%                           | 25%              | 25%              | 25%              | 25%              |
| 6        | 75%                           | 10%              | 10%              | 0%               | 0%               |
| 7        | 50%                           | 0%               | 0%               | 0%               | 0%               |

Under the bill, the tax credit is refundable, meaning that any credit amount that exceeds a taxpayer's income tax liability is refunded to the taxpayer. Under current law the credit is nonrefundable, but any excess credit amount can be carried forward and used on future tax returns for five years. The amount of each credit that can be claimed is capped at \$6,000, except for cases where vehicles are converted to plug-in hybrid vehicles – in which case there is no cap on the credit. Only one tax credit can be claimed per vehicle, except a credit can be claimed both for the purchase of a hybrid vehicle and on the same vehicle if the vehicle is later converted to a plug-in hybrid vehicle. To be eligible for the tax credit, the vehicles must be titled and registered in the state.

***Rebate Program for Alternative Fuel Vehicles.*** Under current law, the state provides a rebate to governmental entities and nonprofit entities for the same types of alternative fuel-related costs that are eligible for the alternative fuel tax credit. The Department of Revenue administers the program. The program is funded from the Alternative Fuels Rebate Fund. The primary revenue source of this fund is the estimated amount of sales tax revenue received from alternative fuel vehicles sales above the amount received in FY 1997-98. The rebates are available on a first come, first served basis.

Starting with FY 2009-10, HB 09-1331 changes the types of alternative-fuel vehicles eligible for the rebate to the same as those that are eligible under the tax credit provided by the bill, except Category 7 vehicles are not eligible for a rebate. Also, the bill extends the rebate program through FY 2014-15.

Like the tax credit, the rebate amounts are calculated based on a percentage of alternative fuel-related costs. Table 3 shows the percentages used to calculate the rebate for each category of alternative-fuel vehicle or fuel-efficient technology under HB 09-1331. The categories include the same types of vehicles as under the tax credit. Unlike the tax credit, there is no cap on the amount of each rebate that can be provided. As under current law, the amount of rebates that can be provided to any one entity is capped at \$350,000 per fiscal year.

**Table 3: Percentages used to Calculate Rebate under HB 09-1331**

| Category | Costs incurred in FY 2009-10 | Costs incurred in FY 2010-11 | Costs incurred in FY 2011-12 | Costs incurred in FY 2012-13 | Costs incurred in FY 2013-14 and FY 2014-15 |
|----------|------------------------------|------------------------------|------------------------------|------------------------------|---|
| <b>1</b> | 85%                          | 75%                          | 35%                          | 35%                          | 35%   |
| <b>2</b> | 65%                          | 45%                          | 25%                          | 15%                          | 15%   |
| <b>3</b> | 75%                          | 55%                          | 35%                          | 25%                          | 25%   |
| <b>4</b> | 75%                          | 55%                          | 35%                          | 25%                          | 25%   |
| <b>5</b> | 25%                          | 25%                          | 25%                          | 25%                          | 25%   |
| <b>6</b> | 75%                          | 10%                          | 10%                          | 0%                           | 0%  |

**State Revenue**

The bill will reduce General Fund revenue in FY 2009-10 by \$400,000 and increase General Fund revenue by \$1.4 million in FY 2010-11. It will reduce General Fund revenue in subsequent fiscal years through FY 2015-16. The revenue impacts are the estimated net change in income tax revenue to the state as a result of changing the types of vehicles and fuel-efficient technologies that are eligible for the existing tax credit. Table 4 shows the estimated revenue impacts of the tax credit available under HB 09-1331 compared to the estimated revenue impacts of the credit under current law through FY 2015-16.

**Table 4. Estimated General Fund Revenue Impact of Alternative Fuel Tax Credit under Current Law and HB 09-1331, in millions**

|                     | FY 2009-10<br>(half year-<br>impact) | FY 2010-11 | FY 2011-12 | FY 2012-13 | FY 2013-14 | FY 2014-15 | FY 2015-16 |
|---------------------|--------------------------------------|------------|------------|------------|------------|------------|------------|
| <b>Current Law*</b> | (\$9.3)                              | (\$27.8)   | (\$20.5)   | (\$2.3)    | (\$0.4)    | (\$0.1)    | \$0        |
| <b>HB 09-1331</b>   | (\$9.7)                              | (\$26.4)   | (\$20.8)   | (\$7.9)    | (\$6.5)    | (\$5.2)    | (\$2.6)    |
| <b>Difference</b>   | (\$0.4)                              | \$1.4      | (\$0.3)    | (\$5.6)    | (\$6.1)    | (\$5.1)    | (\$2.6)    |

\* Although the current tax credit expires after the 2011 tax year, it is anticipated that income tax revenue will continue to be impacted by the credit through FY 2014-15 as taxpayers carryforward unused credit amounts to tax years beyond 2011.

These estimates were derived from data on the state's alternative fuel tax credit and on sales of existing alternative fuel vehicles, which currently are mostly hybrid vehicles. Further, the estimates were derived through discussions with fuel efficient vehicle technology experts regarding the costs of fuel efficient vehicles and technologies and projections regarding the sales of such vehicles and technologies.

It is important to note that the revenue impact of the bill could end up being higher or lower than the estimates depending on the speed and extent to which more fuel-efficient vehicles enter the marketplace as well as the costs of such vehicles. This will be influenced by several factors, most notably the level of gas prices, the state of the economy, consumer tastes, and the introduction of new technology that may lower the cost of fuel-efficient vehicles. It will also be impacted by the capacity of future infrastructure to support more fuel-efficient vehicles, such as the amount of alternative-fueling facilities and the ability of the electrical grid to support the widespread use of electric vehicles and plug-in hybrid vehicles.

***Other General Fund revenue impacts.*** In addition to these revenue impacts, General Fund revenue from sales taxes will decrease starting with FY 2012-13. This will occur as a result of extending the Alternative Fuel Rebate Program through FY 2014-15 because the Alternative Fuel Rebates Fund receives estimated sales tax revenue collected from the sale of alternative fuel vehicles. Under current law, this revenue would be deposited in the General Fund instead of the Alternative Fuel Rebate Fund starting in FY 2012-13 after the program expires. It is estimated that General Fund revenue will decrease by about \$2.0 million in FY 2012-13 and \$2.4 million in FY 2013-14.

## **State Expenditures**

**Department of Revenue, Alternative Fuel Rebate Program.** This fiscal note assumes that expenditures for the rebate program will be \$500,000 in FY 2009-10, which is about \$190,000 higher than what they would be under current law. It is assumed that expenditures will be about the same as under current law in FY 2010-11 and FY 2011-12. Further, state expenditures on the program will be incurred in fiscal years 2012-13 through FY 2014-15 that would otherwise not occur because the bill extends the program.

Although the amount of future expenditures on rebates is unknown as it depends on future purchasing decisions of qualifying entities, the higher expenditures in FY 2009-10 are assumed because the bill increases the amount of the rebate for costs incurred FY 2009-10 for certain commonly purchased alternative fuel vehicles, most notably the Toyota Prius, and makes more types of alternative fuel vehicles and technologies eligible for the rebate. It assumed that rebate amounts will be about the same as under current law for FY 2010-11 and FY 2011-12 because a decline in expenditures as a result of smaller rebates for commonly-purchased alternative fuel vehicles will be offset by rebates for alternative fuel vehicles and other fuel-efficient technologies that are currently ineligible.

It is assumed that purchases of new vehicles and other vehicle-related purchases will be constrained in the next couple years for most governmental entities and nonprofits due to the economic downturn. However, it should be noted that there is the potential that Colorado may receive a grant award from the federal government through the American Reinvestment and Recovery Act that could increase the purchase of alternative fuel and fuel efficient technologies by entities that qualify for the rebate program. Depending on how the federal grant is structured, this could cause an increase in demand for rebates.

### **Other State Impacts**

Based on the March 2009 Legislative Council Staff forecast and current law, there is projected to be insufficient revenue to fully fund 6 percent General Fund appropriations growth in FY 2009-10 and FY 2010-11. This bill is estimated to reduce General Fund revenue in FY 2009-10 and thus will result in a larger reduction in appropriations subject to the 6 percent limit in that fiscal year than under current law. Conversely, this bill is estimated to increase General Fund revenue in FY 2010-11, providing additional money for spending for FY 2010-11.

Further, the bill is estimated to reduce General Fund revenue in fiscal years 2011-12 through FY 2015-16 as shown in Table 4. Thus, depending on the budget and revenue situation in these fiscal years, the bill will either reduce HB 02-1310 transfers to capital construction and transportation, SB 97-1 diversions to transportation, or the amount of revenue available for General Fund appropriations subject to the 6 percent limit.

### **Local Government Impact**

The bill changes the types of vehicles eligible for the alternative fuels rebate program and impacts the amount of the rebates. It is assumed that local governments that participate in the program will receive more in rebates than under current law in FY 2009-10 because they will shift their alternative fuel vehicle-related spending to the types of vehicles that are eligible for a higher rebate amount than under current law. Also, the bill makes more types of alternative fuel-related purchases eligible for the rebate. Starting with FY 2010-11, lower rebates will be available for commonly-purchased alternative fuel vehicles, but other alternative fuel vehicles and fuel-efficient technologies that are currently ineligible will be eligible for rebates. Local governments will also be eligible for a rebate for alternative fuel vehicle-related purchases for a longer period of time since the bill extends the program through FY 2014-15.

### **State Appropriations**

The Department of Revenue has been appropriated \$310,601 for the Alternative Fuels Rebate program from the Alternative Fuel Rebate Fund in the Long Bill for FY 2009-10. This fiscal note implies that this appropriation level will need to increase by \$189,399 to \$500,000 due to higher rebate amounts as a result of the bill.

### **Departments Contacted**

Governor  
Revenue

Local Affairs  
Transportation

Personnel and Administration