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F I S C A L I M P A C T R E P O R T

SPONSOR: Feldman   DATE TYPED: 02/16/01   HB

SHORT TITLE: Alternative Fuel Tax Incentives   SB 18/aSCONC

ANALYST: Rael

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY01	**FY02**			
(*)	$ (7.3)		Recurring	General Fund (MVX)
*	*		Recurring	General Fund (GRT)
*	*		Recurring	Local Gov't (GRT)
$ (100.0)	$ (160.0)		Recurring	State Road Fund (Alt Fuel)

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION

Energy, Minerals and Natural Resources Department (EMNRD)
Taxation and Revenue Department (TRD)
General Services Department (GSD)
State Highway and Transportation Department (SHTD)

SUMMARY

Synopsis of SCONC Amendment

The Senate Conservation Committee Amendment eliminates the possibility of purchasing or leasing alternative fuel or gas-electric hybrid vehicles not assembled in North America.

The amendment deleted "post-secondary" and substituted "educational" which will have the effect of including secondary as well as post-secondary educational institutions.

Exemption 1 in the existing statute was amended to include language which allows for alternative fuels being unavailable at a cost "equal to or less than" instead of "approximately to."

Finally, the amendment eliminates the reporting requirement which was to be made by agencies and departments to EMNRD regarding number of alternative fuel and gas-electric hybrid vehicles purchased and the make, model and fuel type of alternative fuel or gas-electric hybrid vehicles purchased.

ADMINISTRATIVE IMPLICATIONS

The Energy, Minerals and Natural Resources Department will see an increased administrative burden due to deletion of the agency reporting requirement.

TECHNICAL ISSUES

SCONC amendment #6: "aquire" should be corrected to “acquire.”

OTHER SUBSTANTIVE ISSUES

The Energy, Minerals and Natural Resources Department believes that the SCONC amendment to require that all vehicles be assembled in North America will hamper the state’s ability to maintain compliance with the law’s mandates.

Synopsis of Original Bill

Senate Bill 18 proposes to amend several current statutes to encourage increased use of alternative fuels and alternative fuel vehicles. The bill results from the findings and recommendations contained in a study conducted by the Energy Conservation Management Division of the Energy, Minerals and Natural Resources Department in response to Senate Joint Memorial 4, passed during the 2000 session of the New Mexico Legislature.

Significant Issues

Section 1: Amends the Motor Vehicle Excise Tax Act [Chapter 7, Article 14NMSA 1978] to exempt alternative fuel vehicles from the motor vehicle excise tax for a six-and-a-half-year period (July 1, 2001-December 31, 2007). The exemption is targeted solely to “dedicated” alternative fuel vehicles, *i.e.* those vehicles capable of operating only on an alternative fuel; and to gas-electric hybrid vehicles. As noted by TRD, an exemption for bi-fuel vehicles would be ripe for abuse and fraud as was seen under Arizona’s law.

Section 2: Amends the Alternative Fuel Tax Act [Sections 7-16B-1 to 7-16B-10 NMSA 1978] to re-start, beginning in 2002, the lower alternative fuel excise tax rate schedule enacted into law in 1995.

Section 3: Amends Section 13-1-188 NMSA 1978, entitled *Public Purchases of American-Made Motor Vehicles Required*, by exempting alternative fuel vehicles from the provisions of the Statute. The amendment would allow state agencies to purchase alternative fuel vehicles, including gas-electric hybrids, that are not assembled in the United States.
Section 4: Amends Section 13-1B-1 NMSA 1978 by revising how the Alternative Fuel Conversion Act is cited.

Section 5: Amends Section 13-1B-3 of the Alternative Fuel Conversion Act [Chapter 13, Article 1B NMSA 1978] to clarify that all state agencies, as well as post-secondary institutions of higher education, are required to purchase or lease alternative fuel or gas-electric hybrid vehicles. It also requires specific reporting requirements for all state agencies and post-secondary education institutions regarding vehicle purchases.

FISCAL IMPLICATIONS

Vehicle Excise Tax. The excise tax is currently levied at a rate of three percent (3%) and is applied to the price paid for a vehicle. Assuming an average vehicle price of $20,000, the tax would be $600. During the last two years, the private sector has purchased eighteen "dedicated" alternative fuel vehicles and four gas-electric vehicles. This is an average of eleven vehicles per year. Assuming a ten percent (10%) vehicle population increase per year, the revenue loss would be as follows:

1st year (CY2002)	($ 7.3)
2nd year (CY2003)	($ 8.8)
3rd year (CY 2004)	($ 9.6)
4th year (CY2005)	($ 10.6)
5th year (CY2006)	($ 11.7)
6th year (CY 2007)	($ 12.9)

However, with an increase in the alternative fuel vehicle population, there should be an increase in demand for New Mexico natural gas with associated recurring increase in royalties and severance tax.

The Taxation and Revenue Department reports, however, that Sections 7-9-22 and 7-9-23 exempt motor vehicles from the Gross Receipts Tax and the Compensating Tax when the Motor Vehicle Excise Tax has been paid. The State General Fund revenue loss from the 3% Motor Vehicle Excise Tax would more than be made-up by the General Fund's 3.275% or 5% share of Gross Receipts Tax and Compensating Tax Revenue. (Local governments would realize a windfall from local option and state shared taxes amounting to something in excess of a 2% tax rate.) Presumably, the revenue impact would not be large, since this disincentive would result in few alternative fuel vehicles being sold to the private sector. State Agency purchases would be exempt from both the Motor Vehicle Excise Tax and the Gross Receipts Tax, so no fiscal impact results from those sales.

Alternative Fuel Tax. The State Road Fund fiscal impact results from the decreased tax rate for alternative fuel. During the period July 1, 2001 through December 31, 2001 there will be no preferential tax rate for alternative fuel (see Technical Issues). In order to avoid the $0.18 per gallon Special Fuel Excise Tax, alternative fuel users could maximize their tax advantage by purchasing an annual alternative fuel permit upon passage of this bill. Such action could result in increased revenue near the end of fiscal year 2000-2001 (purchase of half-year annual permits) and somewhat less revenue during the first half of fiscal year 2001-2002 (less tax paid on a per gallon basis). Alternatively, imposition of the $0.18 Special Fuel Excise Tax during the first half of fiscal year 2001-2002 might bolster State Road Fund revenues somewhat. Those offsetting affects are difficult to quantify. The revenue loss during the second half of fiscal year 2001-2002 is straightforward and should amount to about $100 thousand between annual permits purchased in December 2001 and a $0.03 tax on a per gallon basis for the rest of fiscal year 2002.

Vehicle Costs. The General Services Department reports that the purchase price of dedicated alternative fuel vehicles is $4,000 to $6,000 more per unit depending on the vehicle type. GSD can purchase 25% more standard gasoline or diesel vehicles from the Vehicle Replacement Fund monies. However, EMNRD has expressed a difference of opinion on this issue.

Environmental Costs. New Mexico may also see reduced environmental clean-up costs due to lower vehicle emissions and lower soil/groundwater contamination potential.

ADMINISTRATIVE IMPLICATIONS

A moderate negative administrative impact on the Motor Vehicle Division would result from computer system changes required to establish time period specifications for the phased Alternative Fuel Tax rates, and establish procedures for exempting alternative fuel vehicles from Motor Vehicle Excise Tax during the titling process. These changes can be accomplished with existing resources, but will present a significant opportunity cost to other initiatives and improvements to the division's computer systems.

The Highway Department reports that it has not identified more than one vendor willing to support either warranty work or general repairs of alternative fueled vehicles because a vendor must be certified to work on these types of engines. Each of these units would have to be transported to Albuquerque for repairs at a significant cost to the Department for excessive travel and down time as one vendor could not support either the Highway Department and/or GSD, fleet of alternative fueled vehicles.

In FY 2000/2001, the Highway Department purchased 28 Bi-fuel E85 Sedans and reports that a minimum of fourteen of them have had fuel problems. Employees have been stranded throughout the State with blown fuel pumps and a bad fuel pressure regulator. Also, the Department ordered over 25 Bi-fuel propane trucks that were supposed to be factory designated, only to find out that a Ford Aftermarket vendor had been contracted to convert the units. All units were over six months late.

TECHNICAL ISSUES

1. The bill becomes effective July 1, 2001 but there are no alternative fuel tax rate provisions specified for the period July through December, 2001. The tax rate imposed on alternative fuels for that period of time would presumably fall under the Special Fuels Excise Tax at a rate of $0.18 per gallon.
2. Sections 7-9-22 and 7-9-23 exempt motor vehicles from the Gross Receipts Tax and the Compensating Tax when the Motor Vehicle Excise Tax has been paid. By exempting alternative fuel vehicles from the Motor Vehicle Excise Tax, the bill effectively imposes the Gross Receipts Tax and Compensating Tax on these vehicles.
3. All references to “conversion” should be changed to “acquisition.”

OTHER SUBSTANTIVE ISSUES

1. **Benefits.** Increased use of alternative fuels is beneficial for New Mexico in several areas:
   (a) greater economic development with expanded natural gas market

(b) environmental impact of alternative fuels is positive; less polluting than gasoline
(c) tax revenue increases due to greater natural gas sales
(d) helps relieve reliance on foreign oil

2. **Current Infrastructure.** The General Services Department reports that the State of New Mexico does not have the infrastructure in place to adequately provide alternative fuels to any consumer, whether public or private. Currently, most alternative fuels are scarcely available throughout the state restricting statewide travel and forcing consumers to plan out trips assuring that fuel would be available. This is especially true for CNG and E85 fuel mixtures. TRD reports that the infrastructure should develop as demand for alternative fuels increases. The demand may not develop, however, until greater infrastructure is in place.

3. **Federal Energy Policy Act.** While this bill attempts to bring New Mexico statutes into compliance with federal Energy Policy Act of 1992 (EPACT) requirements, GSD believes that it goes beyond the EPACT 75% acquisition rate for model year 2001, and thereafter. The bill does not allow for flexibility at the 100% acquisition rate commencing in Fiscal Year 1996, which would place a financial hardship on the GSD vehicle replacement fund and capital expenditures used to acquire new vehicles.

4. **Special Fuels Tax Rate.** The tax rate on gasoline is $0.17 per gallon and the tax on "special fuel" (mostly diesel) is $0.18 per gallon. For each gallon of alternative fuel distributed in New Mexico, the tax imposed would be:

Period Beginning	Period Ending	Alternative Fuel Tax Imposed
January 1, 2002	December 31, 2003	$0.03 per gallon
January 1, 2004	December 31, 2005	$0.06 per gallon
January 1, 2006	December 31, 2007	$0.09 per gallon
January 1, 2008	Thereafter	$0.12 per gallon

The annual alternative fuel tax permit, in lieu of the tax on each gallon of alternative fuel, for the period beginning January 1, 2001 and ending December 31, 2003 would be:

Gross Vehicle Weight	Annual Alt. Fuel Tax Imposed
0 to 6,000 pounds	$15.00
6001 to 16,000 pounds	$25.00
16,001 to 26,000 pounds	$75.00
26,001 to 40,000 pounds	$175.00

Gross Vehicle Weight	Annual Alt. Fuel Tax Imposed
40,001 to 54,000 pounds	$275.00

The cost of alternative fuel permits would increase in subsequent years on a schedule similar to the increase in the tax per gallon shown above.

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