COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0865-01
Bill No.: HB 725
Subject: Agriculture and Animals; Agriculture Dept.; Motor Fuel; Motor Vehicles
Type: Original
Date: February 28, 2007

Bill Summary: Would require a specified percentage of all new vehicle sales to be alternative fueled vehicles.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	($6,671,278)	($6,672,248) to Unknown	($6,673,216) to Unknown
Total Estimated Net Effect on General Revenue Fund	**($6,671,278)**	**($6,672,248) to Unknown**	**($6,673,2160 to Unknown**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	1.0	1.0	1.0
Total Estimated Net Effect on FTE	**1.0**	**1.0**	**1.0**

☐ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Agriculture**, the **Department of Economic Development**, and the **Department of Natural Resources** assume this proposal would have no direct fiscal impact on their organizations.

Officials from the **Office of the Secretary of State** (SOS) provided the following response:

Many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to SOS for Administrative Rules is less than $2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Department of Revenue** (DOR) assume this proposal would create a program to provide tax credits for dealers of new alternative vehicles and alternative fueling stations. DOR would administer the provisions enacted and monitor dealers for compliance, and DOR may promulgate rules to implement the provisions of this section.

The tax credit for alternative fuel vehicle sales would be equal to 10% of the total invoice price of all alternative fueled vehicles sold, but could not exceed the taxpayer's liability. Excess tax credits would not be refundable and could not be sold, transferred, or assigned; however, they could be carried forward for 5 years. The cumulative amount of credits issued could not exceed $20 million.

Beginning January 1, 2008 all new vehicle dealers would be required to sell a specified percentage of alternative fueled vehicles, based on total sales. The number of new vehicles sold would be reviewed quarterly. Any new vehicle dealer who meets the sales requirement for alternative fuel vehicles would be eligible for the tax credit. Any new vehicle dealer who does not meet sales requirement would be subject to a surcharge. The surcharge would be collected by DOR and deposited into a dedicated fund.

ASSUMPTION (continued)

The tax credit for alternative fueling stations would be up to $10,000 for costs associated with improvements of existing stations, and up to $50,000 for costs associated with new construction. Excess tax credits would not be refundable and could not be sold, transferred, or assigned; however, they could be carried forward for 5 years. The cumulative amount of credits issued could not exceed $20 million.

Administrative Impact

Personal Tax would require 1 Tax Processing Technician I for every 4,000 credits claimed.

Customer Assistance assumes the increased volume could be handled with existing staff.

Motor Vehicle would require 1 Revenue Licensing Tech I for 50% of the time and related funding each year to do the following:

* Do a mailing to approximately 650 new motor vehicle franchised dealers regarding the requirements of this bill and receive related phone calls.

* Receive, track, accumulate, and maintain totals by dealer of the total number of new vehicles and new alternative fueled vehicles sold as well as the total dollar amount in invoice sales of vehicles.

* Transmit the above information to taxation so they could determine any tax credits allowed.

* Inform 650 franchised dealers of their tax credit available or surcharges due.

* Account for surcharges paid and generate follow-up letters on accounts not paid, if applicable.

General Counsel will need 2 Legal Counsel for appeals.

Information Technology (ITSD/DOR) assumes the IT portion of this request could be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement. ITSD/DOR estimates that this legislation could be implemented utilizing 2 existing CIT III for 1 month, and an additional 1 CIT III for 1.5 months at a cost of $14,651.

ASSUMPTION (continued)

In summary, DOR provided an estimated cost to implement the proposal including 3.0 FTE and related equipment and expenses, totaling $175,476 for FY 2008, $193,094 for FY 2009, and $198,795 for FY 2010.

Oversight assumes that any appeals requiring additional legal counsel would be generated by the more stringent sales requirements provided by the legislation after the initial years. Oversight has included the 1.0 FTE Tax Processing Technician in this fiscal note. If an unanticipated additional workload is generated as a result of this proposal or if multiple proposals are enacted which generate an additional workload for DOR, resources could be requested through the budget process.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional position to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted equipment and expenditure costs in accordance with OA budget guidelines.

Oversight assumes that dealer surcharges for failure to meet the alternative vehicle sales percentage requirements would be collected after FY 2008; however, Oversight is unable to estimate the amount, if any, which would be collected. Oversight will indicate the fiscal impact of the surcharge as $0 to Unknown for FY 2009 and FY 2010.

Oversight has compared the total tax credit issuances relative to the total tax credit redemptions for the previous three years in order to determine a relationship between the two. Oversight discovered that the annual redemptions ranged from 79 percent to 86 percent of the annual issuances. Depending on the program, the redeemed credits may have been issued several years prior and carried forward to the years studied; however, Oversight will utilize an estimated redemption total of 83 percent of tax credits issued. Therefore, under this proposal, if $40,000,000 of credits are issued, Oversight would assume $33,200,000 (83%) of credits to be redeemed, reducing Total State Revenues. Oversight assumes the credits would be redeemed equally over the first five years of the program with the first credits redeemed in FY 2008 since credits for alternative fuel facilities could be claimed on facilities constructed or under construction.

This proposal would reduce Total State Revenues.

FISCAL IMPACT - State Government	FY 2008 (10 Mo.)	FY 2009	FY 2010
GENERAL REVENUE			
Revenue - Surcharges			
Surcharges for vehicle dealers with alternative vehicle sales less than required	$0	$0 to Unknown	S0 to Unknown
Costs - Department of Revenue			
Personal Service (1 FTE)	($17,820)	($22,026)	($22,686)
Fringe Benefits	($7,851)	($9,704)	($9,996)
Expense and Equipment	($5,607)	($518)	($534)
Total Costs - DOR	($31,278)	($32,248)	($33,216)
Loss - Tax credits			
Tax credits for alternative fuel vehicle sales and construction of fueling facilities	($6,640,000)	($6,640,000)	($6,640,000)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**($6,671,278)**	**($6,672,248) to Unknown**	**$(6,673,216) to Unknown**

FISCAL IMPACT - Local Government	FY 2008 (10 Mo.)	FY 2009	FY 2010
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to small businesses involved in new vehicle sales or in selling motor fuel.

FISCAL DESCRIPTION

This proposal would require a specified percentage of all new vehicle sales to be alternative fueled vehicles.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SS:LR:OD (12/02)

SOURCES OF INFORMATION

Office of the Secretary of State
Department of Agriculture
Department of Economic Development
Department of Natural Resources
Department of Revenue

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Director
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