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

		ORIGINAL DATE	02/11/16		
SPONSOR	Gallegos, DM	**LAST UPDATED**		**HB**	319
SHORT TITLE	Clean-Burning Vehicle Fuel Tax Credit			**SB**	
				ANALYST	Alejandro

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY16	**FY17**	**FY18**	**FY19**	**FY20**		
$0.0	$0.0	($0.0-$5,000.0)	($0.0-$5,000.0)	($0.0-$5,000.0)	Recurring	General Fund

Parenthesis ( ) indicate revenue decreases

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

FY16	FY17	FY18	3-Year Total	Recurring or Nonrecurring	Fund Affected
$32.0	$8.4	$8.4	$48.8	Nonrecurring	TRD Budget

Parenthesis ( ) indicate expenditure decreases

SOURCES OF INFORMATION
LFC Files

Responses Received From
Energy, Minerals and Natural Resources Department (EMNRD)
Taxation and Revenue Department (TRD)

SUMMARY

House Bill 319 creates a personal and corporate income tax credit for the purchase and installation of a commercial clean-burning motor vehicle fueling device (station) within one mile of an interstate highway. The credit is available against the cost and installation of the device according to the following schedule:

- 50 percent if completed in 2018,
- 45 percent if completed in 2019,
- 40 percent if completed in 2020,
- 35 percent if completed in 2021,
- 30 percent if completed in 2022, and
- 25 percent if completed in 2023.

The credit may not exceed $500 thousand per device and location, and total combined CIT and PIT credits may not exceed $5 million per year.

The purpose of House Bill 319 is to address environmental concerns related to motor vehicle emissions, improve air quality, reduce dependence on foreign oil, and enhance New Mexico's economic base by promoting use of locally sourced natural gas and other clean-burning fuels.

The provisions in this bill would apply beginning January 1, 2018 and ending December 31, 2023.

FISCAL IMPLICATIONS

House Bill 319 contains a combined annual cap of $5 million between PIT and CIT. As such, the maximum fiscal impact for any given year would be $5 million. It is unclear, however, the rate at which the credit would be utilized.

According to TRD, promoting the use of clean-burning motor vehicle fuel has numerous environmental and economic benefits. This bill creates substantial incentives for the construction of new alternative fueling stations, thereby incentivizing a new market for New Mexico natural gas fuels. The incentive is attractive for businesses as it off-sets their capital investment requirements and lowers their operational break-even point.

SIGNIFICANT ISSUES

According to EMNRD, the bill directly relates to the implementation of the 2011 memorandum of understanding signed by Governor Martinez and other surrounding states to attract automobile manufacturers in the United States to develop a functional and affordable original equipment manufacturer natural gas vehicle fleet.

House Bill 319 also would assist in further developing the state's alternative fueled vehicle infrastructure and address the natural gas vehicle component of the state's 2015 Energy Policy. New Mexico is currently required under the Department of Energy's EPAct Rule that 75 percent of all light-duty vehicle fleets acquired by state government agencies and state universities be alternative fueled vehicles. House Bill 319 could assist the state in meeting these requirements under EPAct by incentivizing the needed infrastructure to increase the use of clean-burning motor vehicles in the state.

TRD offers the following information - obtained from the US Department of Energy Alternative Fuels Data Center - regarding New Mexico's existing alternative fueling stations:

- 7 compressed natural gas (CNG) stations,
- 1 liquefied natural gas (LNG) station,
- 19 liquefied petroleum gas (propane) stations,
- 2 biodiesel stations,
- 36 electric stations and 108 charging outlets,
- 7 ethanol E-85 stations, and
- zero hydrogen stations.

TRD also indicates that according to the Energy Information Administration, an LNG fueling site construction cost can range from $1 to $4 million, while a CNG fueling station can range up to $1.8 million construction cost depending on the size and application (fast-fill or time-fill).

There is an existing federal incentive – the Alternative Fuel Infrastructure Tax Credit – that provides a tax credit of 30 percent of cost, not to exceed $30,000. Fueling station owners who install qualified equipment at multiple sites are allowed to use the credit towards each location. Neighboring states have instituted grant, loan, and credit programs for both infrastructure and alternative fuel vehicles.

PERFORMANCE IMPLICATIONS

TRD will compile and present to the Revenue Stabilization and Tax Policy Committee and Legislative Finance Committee an annual report that will include the number of taxpayers who claimed that tax credit, the aggregate amount of credits claimed, and any other information needed to evaluate the effectiveness of the tax credit beginning in 2019 and every year after while the tax credit is in effect.

TECHNICAL ISSUES

TRD raises an issue related to clarity. Because the annual caps (p.4, ll.9-13 for the personal income tax (PIT) credit and p.10, ll.8-12 for the corporate income tax (CIT) credit) list both the PIT and CIT credits, TRD believes the $5,000,000 cap is an aggregate combined cap for both credits, which will affect any estimated the fiscal impact (this is also how LFC staff interprets the bill language). However, the language can be interpreted to have a maximum aggregate ceiling of $10 million: $5 million for PIT and $5 million for CIT. TRD recommends making clear that the cap is a "combined aggregate" total.

ADMINISTRATIVE IMPLICATIONS

According to TRD, minimal ongoing monitoring of the credit will be required. Changes to documents, instructions, and forms will be necessary, as will upgrades and configuration to IT systems and software. These costs are one-time expenses incurred after bill passage, and future changes will be handled as part of year-to-year transition.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP:

House Bill 319 is related to House Joint Memorial 5 on the Importance of Natural Gas Vehicles, and House Bill 176 on Increased Weight Limits for Heavy Duty Natural Gas Vehicles.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

EMNRD has expressed concern that by enacting this bill – for which the tax credits do not become available until calendar year 2018 – the current growth of clean-burning motor vehicle infrastructure would not be incentivized. This could potentially limit the installation of clean-burning vehicle infrastructure in the near-term thus limiting the interest and utilization of clean-burning motor vehicles in the state.

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