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FISCAL IMPACT REPORT



SPONSOR: Feldman **DATE TYPED:** 01/24/02 **HB** _____

SHORT TITLE: Alternative Fuel Vehicle Acquisitions **SB** 18

ANALYST: Trujillo

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY02	FY03	FY02	FY03		
		\$0.1 See Narrative		Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

Relates to Appropriation in The General Appropriation Act

SOURCES OF INFORMATION

LFC Files

Responses Received From:

Energy, Minerals and Natural Resources Department (EMNRD)
 State Highway and Transportation Department (SHTD)
 Department of Education
 Commission on Higher Education (CHE)

No Response:

General Services Division (GSD)

SUMMARY

Synopsis of Bill

Senate Bill 18 amends several existing statutes to encourage increased use of alternative fuels (*e.g.*, compressed natural gas, propane, ethanol) and alternative fuel vehicles. The bill results from the findings and recommendations contained in a study conducted by the Energy Conservation and Management Division of EMNRD in response to Senate Joint Memorial 4, passed during the 2000 session of the New Mexico Legislature. The key provisions of the bill are:

- Section 1: Amends Section 13-1-188 NMSA 1978, entitled *Public Purchases of American-Made Motor Vehicles Required*, by allowing the acquisition of gas-electric hybrid vehicles (not currently assembled in North America) until these vehicles are assembled in North America. The amendment would allow state agencies to purchase highly efficient (60-70 miles per gallon) gas-electric hybrids such as the Toyota Prius and Honda Insight.
- Section 2: Amends Section 13-1B-1 NMSA 1978 by revising the name of the Alternative Fuel Conversion Act [Chapter 13, Article 1B NMSA 1978] to the Alternative Fuel Acquisition Act.
- Section 3: Amends Section 13-1B-2 NMSA 1978 to expand the definition of “alternative fuel” to include biofuels made from at least 20% vegetable oil.
- Section 4: Amends Section 13-1B-3 NMSA 1978 to make state purchasing requirements for alternative fuel vehicles consistent with federal law (75%). New Mexico statutes currently require that 100% of all vehicles purchased by state agencies be converted to operate on alternative fuels, while the federal Energy Policy Act of 1992 (EPACT) requires that 75% of vehicle purchases be alternative fuel vehicles.
- State purchasing requirements would now apply to all New Mexico educational institutions, not just post-secondary schools. Other amendments would update and clarify existing exemptions to state purchasing requirements for alternative fuel vehicles. For example, the cost of alternative fuels would have to be within 15% of that charged for gasoline.
- The bill would require state agencies and educational institutions to provide to EMNRD, by September 1 of each year, a brief report identifying the total number of vehicles purchased in the preceding fiscal year; the number of those vehicles that are capable of operating on alternative fuels; and the make, model and fuel type of each alternative fuel vehicle purchased.
- Sections 5-8: Amends Sections 13-1B-4 to -7 NMSA by making language changes consistent with previous revisions to existing statutes. Examples include changing “conversion” to “acquisition”; and changing “post-secondary institutions” to “educational institutions.”
- Section 9: Establishes an effective date of July 1, 2002.

Significant Issues

EMNRD reports existing state law requires that 100% of the vehicles purchased each year by state government and post-secondary institutions be capable of operating on alternative fuel. Current federal law requires only 75% of the vehicles purchased to be capable of operating on alternative fuel. Over the past five years, however, purchases of alternative fuel vehicles have accounted for an annual average of only 18% of total vehicle purchases, well below the 100% state requirement. The primary reasons for not meeting requirements are the generally higher cost of alternative fuel vehicles; the lack of alternative fuel infrastructure in New Mexico; and lack of knowledge about alternative fuels, including their benefits and the corresponding statutory requirement. This bill seeks to address a number of these factors.

According to EMNRD, it is important to note that New Mexico is required to meet federal EPACT

requirements. Failure to meet these requirements will subject New Mexico to penalties, in the form of precluding receipt of federal energy and air quality program grant funding. To date, New Mexico has met this federal mandate through the use of credits acquired from alternative fuel vehicle purchases in the early 1990s. It is projected that the remaining credits (188) will be exhausted in 2003.

SHTD reports there is no financial assistance in terms of grants or incentives, only loans. Also, there is a \$3,000 limit per loan per vehicle that could be obtained. This language is obsolete because it was originally intended for conversions not acquisitions. A vehicle cannot be acquired for \$3,000. Will the state assist agencies in the incremental costs of alternative fueled vehicles other than loans?

PERFORMANCE IMPLICATIONS

EMNRD reports, if enacted, this bill will positively impact EMNRD's efforts to meet a current Performance Measure under its Healthy Ecosystems Program goal: Outcome—A 4% increase in alternative fuels consumption of gasoline-equivalent gallons from state-sponsored activities.

FISCAL IMPLICATIONS

SHTD reports the requirement that state agencies purchase alternative fuel or gasoline/electric vehicles is difficult to evaluate. The cost of alternative fuel vehicles is significantly higher than traditional fuel vehicles and there is no financial incentive for state agencies to seek these higher-priced vehicles. The bill would affect FY03 agency vehicle purchases, but the budgets for those purchases will have been established without considering the extra costs associated with alternative fuel vehicles.

The State Road fund is continuing to decline while operating costs continue to rise. Additional costs to implement this legislation will have to be absorbed which will ultimately have an impact on our ability to build and maintain roads.

ADMINISTRATIVE IMPLICATIONS

According to SHTD, the requirement that agencies report vehicle purchases to the EM&NR Department imposes additional administrative burdens on state agencies.

TECHNICAL ISSUES

SHTD reports, the definition of an alternative fueled vehicle in this bill does not address gross vehicle weight rating (GVWR). This determines which light duty or automotive units should be eligible for qualifying alternative fuel purchase. A maximum weight needs to be established simply because heavier trucks borderline the weight limit. In the past the GVWR was established at 8500 lbs. According to RLD, 13-1B5(c) initially addresses the "CONVERSION" of vehicles to alternate fuel by providing a "Loan" that covers the cost of a Conversion". The revisions to this paragraph change the word "Convert" to "Acquire" however, the original \$3,000.00 conversion allowance was NOT changed and it is wholly inadequate to cover the purchase price of a 2002 alternate fuel vehicle which exceeds \$21,000.

RLD suggest, change “Loan Fund” to “Acquisition Fund” since State agencies are not authorized to borrow funds. Furthermore, appropriating the funds directly to the Vehicle Replacement Fund would eliminate the need for at least one FTE as well as the cost of an audit and the paperwork that would be necessary to administer this proposed Loan program.

The dollar amount to realistically represents the current/anticipated market cost of over \$21,000 required to purchase an alternately fueled vehicle should be addressed.

OTHER SUBSTANTIVE ISSUES

According to EMNRD, increased use of alternative fuels is beneficial for New Mexico in several areas:

- (a) greater economic development with expanded natural gas and propane market, as well as growth of the fledgling alternative fuel industry;
- (b) environmental impact of alternative fuels is positive—less polluting than gasoline;
- (c) tax revenues increase due to greater natural gas sales; and
- (d) helps reduce reliance on foreign oil, increasing our energy independence.

SHTD reports, current requirements that state agencies convert newly purchased vehicles to alternative fuel have probably been ineffective, despite the fact that the requirements have the strength of law. In fiscal year 1993-1994, of the new vehicles purchased, 30% were supposed to be converted to alternative fuel. In fiscal year 1994-1995 the requirement increased to 60%, and then to 100% for fiscal year 1995-1996. This has not happened, and clearly many agencies do not believe the purchase of such vehicles is the best use of public funds.

Alternative fuel vehicles are more expensive than standard gasoline and diesel vehicles. Fuel facilities are currently not widely available, and there are no known state resources to develop such facilities. The department must be aware of available fueling stations when distributing long-term leased vehicles and assigning short-term lease vehicles.

If alternative fuel stations were more readily available, vehicles that only operate on alternative fuels could be assigned to more areas of the state. However, as of last year SHTD had identified only one vendor willing to support either warranty work or general repairs of alternative fueled vehicles since the vendor must be certified to work on these types of engines. Each vehicle would have to be transported to Albuquerque for repairs at a significant cost to the department for excessive travel and down time. Also, one vendor could probably not support the volume of vehicles acquired by agencies under the requirement that 75% of new vehicles be alternative fueled vehicles.

Alternative fuels are only available in Santa Fe (at GSD Motor Pool), Albuquerque (GSD Motor Pool, UNM and one privately-owned station on Edith and Candelaria near I-25), Las Vegas, Alamogordo and El Paso. The stations in Bloomfield and Aztec closed, and the two public access locations in Santa Fe have closed. EPA mandates the state must purchase vehicles that can operate on alternative fuels, but the vast majority of the state lacks the minimum infrastructure to support alternative fueled vehicles.

In FY 2000/2001, SHTD led all state agencies in alternative fueled vehicle purchases and with that experienced the downfalls of being a leader where the infrastructure in New Mexico is not available. The Department purchased 28 bi-fuel E85 Sedans and a minimum of fourteen have had fuel problems. Employees have been stranded throughout the state with blown fuel pumps and bad fuel pressure regulators. Also, SHTD ordered over 25 bi-fuel propane trucks that were supposed to be factory-installed, only to find out that a Ford aftermarket vendor had been contracted to convert the units. This sub-contract caused the delivery of the vehicles to be over six months late, yet no penalties were imposed on the vendor.

POSSIBLE QUESTIONS

Will the state assist agencies in the incremental costs of alternative fueled vehicles other than loans?

LAT/prr