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FISCAL IMPACT REPORT

SPONSOR Garcia, MP DATE TYPED 3-2-2005 HB 872

SHORT TITLE Gas Vapor Recovery System Tax Credit SB _____

ANALYST Taylor

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
(\$50.0)	(\$100.0)		Recurring	State General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files
 Taxation and Revenue Department (TRD)
 New Mexico Environment Department (NMED)

SUMMARY

House Bill 872 provides tax for the costs paid for the installation of “stage II vapor recovery systems” at gasoline stations. The credit can be applied against the station owners’ personal or corporate income tax bill. Stage II vapor recovery systems are defined as “a system that captures and transfers at minimum ninety-five percent by weight of gasoline vapors that are generated during motor vehicle refueling into a gasoline dispensing facility’s stationary tanks”.

The bill has an effective date of January 1, 2005.

FISCAL IMPLICATIONS

The Taxation and Revenue Department estimates that the tax credit will reduce state general fund dollars by \$50 thousand in FY05 and \$100 thousand in FY06. Their estimate notes that the fiscal impact depends on how many station owners take advantage of the tax credit incentive. They also note that the cost per station is likely to vary widely—from \$3,500 per station to several times that. They suggest that absent federal or state mandates, participation will be low, and thus the relatively low fiscal impact.

Given the uncertainty about participation, it should be recognized that any fiscal impact estimate for this type of legislation cannot be very precise, and therefore the risk associated with the estimate is relatively high.

ADMINISTRATIVE IMPLICATIONS

The Taxation and Revenue Department's analysis indicated the following administrative impact:

Impacts depend, in large part, upon the number of stations installing eligible equipment, as the bill's provisions would require development of manual mechanisms to verify that the tax basis of the equipment is decreased by the amount of the credit. Income tax forms and instructions would also require modification. In addition, systems modifications and training for department personnel would be necessary.

OTHER SUBSTANTIVE ISSUES

The Taxation and Revenue Department and the Environment Department included substantive policy issues in their analyses. These are replicated here.

Taxation and Revenue Department issues:

1) By providing credits for 100 percent of the cost of installing vapor recovery systems, the State of New Mexico would, in effect, purchase the systems for the gas station owners. Providing credits for some fraction of the costs (for example, 50%) would probably be more cost-effective than credits for 100 percent of the costs. Moreover, vapor recovery systems have been shown to return fuel to storage tanks. Hence, the net cost of installation after allowing for fuel savings from vapor recovery is substantially less than 100% of the initial cost.

2) Expenditures for the vapor recovery systems would be deductible in most cases against federal personal and corporate income tax obligations. Thus, under the provisions of this bill, state and federal government would pay for over 100% of the cost of vapor recovery systems.

Background: Stage I and II Vapor Recovery Systems

Stage I vapor recovery systems at gasoline dispensing facilities route gasoline vapors into the tanker truck without releasing them into the atmosphere. Stage II Vapor Recovery Systems collect gasoline vapors from vehicles' fuel tanks while customers dispense gasoline products into their vehicles at gasoline dispensing facilities. The stage II system consists of special nozzles and coaxial hoses at each gasoline pump that capture vapors from the vehicle's fuel tank and route them to the station's underground or aboveground storage tank(s) during the refueling process.¹

According to the New Mexico Environment Department, stage II recovery systems reduce carcinogenic and non-carcinogenic air pollution, as well as vapors that contribute to ozone air pollution. Stage II recovery systems recapture significant amounts of liquid gasoline that would otherwise be released to the air as vapor, thereby improving service station efficiency and profitability.

New Mexico Environment Department Issues:

¹ <http://www.epa.state.il.us/air/stage-ii-vapor-recovery.html>

A tax credit for the installation of vapor recovery equipment is a powerful incentive for gasoline station owners to add this equipment. Vapor recovery equipment not only recovers vapors, but can also result in significant recovery of fuel as vapors that are returned to the tank become liquid, which is a cost savings for station owners. Gasoline vapors include known carcinogens, such as benzene, and harmful non-carcinogenic compounds that may cause dizziness and nervous system disorders. These toxic components of gasoline vapors are also known as “volatile organic compounds” that are “ozone-precursors”, which means that they contribute to the formation of ground-level ozone. Ground-level ozone is formed by the following chemical reaction:

Volatile Organic Compounds + Oxides of Nitrogen + sunlight → Ozone

The environment department monitors air quality around the state to ensure that concentrations of air pollutants do not exceed state and federal air quality standards. In San Juan and Dona Ana County, ozone air pollution is approaching the federal ozone standard. HB 872 provides an incentive for air pollution control at gasoline stations, where emissions of gasoline vapors contribute to the formation of ozone. In an intensive analysis for San Juan County, it was determined that reduction of volatile organic compounds, like gasoline vapors, reduces ozone concentrations more effectively than reduction of other air pollutants. Reduction of gasoline vapors in the ambient air will lead to less ozone formation, especially in San Juan County. Lower ozone concentrations will ensure that federal ozone standards are achieved in New Mexico.

BT/yr