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FISCAL IMPACT REPORT

ORIGINAL DATE 1/29/18
SPONSOR Small **LAST UPDATED** 2/09/18 **HJM** 15/aHENRC

SHORT TITLE VW Settlement Funds for Electric Vehicles **SB** _____

ANALYST Sánchez

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY18	FY19	FY20	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		See Fiscal Implications				

(Parenthesis () Indicate Expenditure Decreases)

Relates to HJM6

SOURCES OF INFORMATION

LFC Files

Responses Received From

New Mexico Attorney General’s Office (NMAG)

Declined to Respond

New Mexico Environment Department (NMED)

General Services Department (GSD)

New Mexico Department of Transportation (NMODT)

Public Education Department (PED)

Energy, Minerals and Natural Resources Department (EMNRD)

SUMMARY

Synopsis of HENRC

The House Energy, Environment and Natural Resources Committee amendment to House Joint Memorial 15 removes the paragraph describing eligible projects and the paragraph on transit electrification. The amendment adds a new paragraph that a state may use up to 15 percent of the money to deploy a light duty zero emission vehicle charging network and requests that the Public Education Department to use money for that purpose.

Synopsis of Original Bill

House Joint Memorial 15 asks the New Mexico Environment Department, New Mexico Transportation Department, Energy, Minerals and Natural Resources Department and the Public

Education Department to consider using 15 percent of the money allocated in *In Re Volkswagen “clean Diesel” Marketing, Sales Practices, and Products Liability Litigation* on zero emission vehicle charging networks across the state and the remainder of the money to replace medium and heavy duty diesel vehicles with electric vehicles with priority to projects that electrify transit systems.

FISCAL IMPLICATIONS

The Public Education Department (PED) requested \$27.1 million in capital outlay appropriations to replace 319 school buses for use in FY19. The request includes replacing 201 buses that are beyond their 12-year replacement cycle. In prior analyses, PED has indicated the average cost of a new diesel bus to be about \$85 thousand. The estimated cost of an electric buses is between \$225 thousand to \$260 thousand, about three times that of a diesel bus; however, long-term operational and maintenance costs are typically lower for electric buses. Using the Volkswagen trust settlement fund may alleviate pressure to use general fund, PSCOF, or other capital outlay appropriations for school bus replacement.

The FY19 LFC capital outlay framework includes \$6 million for school bus replacements, \$2 million from general obligation bond capacity and \$4 million from the Volkswagen trust settlement fund (See FY19 LFC Volume 3, page 152).

SIGNIFICANT ISSUES

The New Mexico Environment Department posted on its website dedicated to the Volkswagen settlement the following:

On September 25, 2016, a partial consent decree in the lawsuit entitled *In re: Volkswagen “Clean Diesel” Marketing, Sales Practices, and Product Liability Litigation* was finalized. The lawsuit addressed Volkswagen’s admission of purposely, and over a sustained period of time, employing prohibited emissions defeat devices on their diesel passenger vehicles that resulted in excess emissions of nitrogen oxides (NOx). Under the consent decree, New Mexico is eligible to receive over \$18 million to implement projects that reduce emissions of NOx from vehicles. Eligible mitigation projects include projects that reduce NOx emissions in freight trucks; school, shuttle, or transit buses; ferries and tugs; forklifts; electric or hydrogen vehicle charging stations; and airport ground support equipment.

Proceeds of the settlement can be used for the following eligible projects

1. Class 8 local freight trucks and port drayage trucks
2. Class 4-8 school/shuttle/transit buses (with a 2009 or older engine)
3. Freight switcher locomotives
4. Ferries/tugboats
5. Ocean going vessels shorepower
6. Class 4-7 local trucks
7. Airport ground support equipment
8. Forklifts and cargo handling equipment at ports
9. Light duty ZEV supply equipment (up to 15% of allocation)
10. Diesel Emission Reduction Act Option (#10) (use as non-federal grant match)

New Mexico school buses with 2010-2012 engine model years may also qualify due to state regulations requiring upgrades to older model years. Funding is contingent upon scrapping or repowering the older bus. For buses owned by governmental entities, funding is authorized at up to 100 percent of the cost of a new replacement bus or repowered engine regardless of the technology type. For buses owned by non-governmental entities, the funding is up to:

- 25 percent of the cost of a new diesel or alternate-fueled bus;
- 40 percent of the cost of repowering the bus with a new diesel or alternate-fuel engine; or
- 75 percent of the cost of replacing or repowering the bus with electric vehicle technology.

ADMINISTRATIVE IMPLICATIONS

The New Mexico Volkswagen settlement team, a group responsible for developing an application process for the settlement proceeds, is led by NMED and includes DOT, EMNRD, and PED. PED indicated the department would make a funding request to the team for school bus replacement funding. However, a timeline has not been set for the application process, and the settlement proceeds are likely to be phased in over the next three years rather than becoming immediately available. Funding requests must be accompanied by a spending plan that includes a detailed description of mitigation actions, estimate of nitrous oxide reductions, project management plan, detail of cost estimates, description of any cost sharing, and description of the impact on communities that have been disproportionately affected by nitrous oxide emissions

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Relates to

HB86 School Bus Replacement and Contracts

SB94 General Obligation Bond Projects

HB306 Severance Tax Bonds

Partially duplicates HJM6 VW Settlement Funds for Electric Cars

OTHER SUBSTANTIVE ISSUES

According to the U.S. Environmental Protection Agency, newer diesel engines operate more cleanly than in the past, but many older diesel engines that emit far more air pollution are still on the road. Diesel emissions contain numerous pollutants, including soot, nitrogen oxides, and carbon monoxide, that adversely affect cardiovascular and respiratory health. Diesel exhaust is carcinogenic to humans and classified as a Group 1 carcinogen by the International Agency for Research on Cancer. The American Journal of Respiratory and Critical Care Medicine published a study in 2015 which found diesel soot from school buses has also been associated with reduced lung function and increased incidences of pneumonia in children.

ABS/sb/al