

Date of Hearing: April 11, 2016

ASSEMBLY COMMITTEE ON TRANSPORTATION

Jim Frazier, Chair

AB 1710 (Calderon) – As Amended April 5, 2016

SUBJECT: Vehicular air pollution: advanced-technology light-duty vehicles

SUMMARY: Requires the California Air Resources Board (ARB), in consultation with the State Energy Resources Conservation and Development Commission (Commission), to establish a long-term, comprehensive incentive program to help the state achieve its zero emission vehicle (ZEV) deployment goals. Specifically, **this bill:**

- 1) Requires ARB, on or before January 1, 2019, to develop and implement a comprehensive program to promote ZEV and near-zero-emission vehicle (NZEV) deployment that meets ZEV goals established by the Governor and the Legislature, and includes a portfolio of incentives including, but not necessarily limited to, the following:
 - a) An employer incentive program, including but not limited to, incentives targeting companies located outside of population centers or companies whose employees commute from a 50-mile radius;
 - b) An incentive program targeted at low-income individuals for the purchase or lease of ZEVs or NZEVs; and,
 - c) On-road incentives.
- 2) Provides that incentives may include grants, traditional loans, revolving loans, or other appropriate measures.
- 3) Requires ARB, in implementing the incentive program, to consult with the Commission to identify opportunities for coordinated investments in ZEV and NZEV infrastructure.
- 4) Requires that the Greenhouse Gas Reduction Fund (GGRF), Air Quality Improvement Fund (AQIP), or Alternative and Renewable Fuel and Vehicle Technology Fund (ARFVTP) monies be made available, upon appropriation by the Legislature, for the incentive program.
- 5) Requires ARB, to submit an annual report to the Legislature regarding the effectiveness of the incentive program.
- 6) Declares the intent of the Legislature to enact legislation to provide, a tax credit incentive program created by this bill, in the cases where a credit exceeds the "net tax," that the excess be refunded to the taxpayer.
- 7) Requires, for taxation purposes, on or after January 1, 2017 that low income buyers would not pay state sales taxes on the first \$40,000 of qualifying ZEVs or NZEVs.
- 8) Allows, for each taxable year beginning on or after January 1, 2017, and before on January 1, 2026, buyers to receive a \$2,500 tax credit for the purchase of qualifying ZEVs or NZEVs provided to the taxpayer in the taxable year that the vehicle is purchased.

- 9) Requires that, where applicable, specified sections of the Internal Revenue Code apply.
- 10) Requires that the Franchise Tax Board (FTB), in consultation with the State Board of Equalization (BOE), prepare an annual report to the Legislature on or before January 1, 2018 and annually thereafter until January 1, 2027, detailing results of the program.
- 11) Defines a variety of terms.

EXISTING LAW:

- 1) Requires ARB, pursuant to AB 32, (Núñez), Chapter 488, Statutes of 2006, to develop a plan of how to reduce statewide GHG emissions to 1990 levels by 2020.
- 2) Authorizes ARB, pursuant to AB 32, ARB to include the use of market-based mechanisms (cap and trade) to comply with AB 32.
- 3) Establishes the GGRF in the State Treasury and requires all money collected pursuant to cap and trade, with limited exceptions, be deposited into the fund.
- 4) Creates the ARFVTP, pursuant to AB 118 (Núñez), Chapter 750, Statutes of 2007, and requires the Commission to fund projects that develop and deploy technologies and alternative and renewable fuels in the marketplace to help meet the state's climate change policies.
- 5) Creates the Air Quality Improvement Program (AQIP), administered by ARB and the Commission, in consultation with local air districts, to fund specified air quality improvement projects.
- 6) Established, by the Governor's Executive Order B-16-12, the goal of placing 1.5 million ZEVs and NZEVs on California's roadways by 2025.
- 7) Established the Clean Air Vehicle Rebate Program (CVRP), pursuant to AB 32, promote the purchase of ZEVs and NZEVs by providing rebates of up to \$5,000 for per qualifying vehicles.
- 8) Established the Charge Ahead California Initiative, pursuant to SB 1275 (de León), Chapter 530, Statutes of 2014, to provide incentives that increase the availability of ZEVs and NZEVs particularly in disadvantaged communities and for low- and moderate income consumers and established the goal of placing one million ZEVs and NZEVs into service by January 1, 2023.
- 9) Establishes the Sales and Use Tax (SUT) Law that imposes a tax on retailers measured by the gross receipts from the sale of tangible personal property sold at retail in the state, or on the storage and use, or consumption of tangible personal property.
- 10) Established the Bradley-Burns Uniform Local Sales and Use Tax Law authorizing cities and counties to impose local sales and use taxes in conformity with the SUT.

- 11) Allows, pursuant to the Personal Income Tax Law, various credits against the taxes imposed. And allows deductions from gross income in computing adjusted gross income under that law.

FISCAL EFFECT: Unknown

COMMENTS: To help improve air quality and meet the state's GHG reduction goals, a number of programs have been developed to encourage vehicle owners to scrap their older, high-polluting cars and trucks and replace them with newer, cleaner vehicles. While many of these programs are offered to all consumers, some programs are specifically target toward disadvantaged communities and lower-income individuals. For example, the Enhanced Fleet Modernization Program (EFMP), administered by ARB, provides funding for vehicle owners to retire their high-polluting vehicles. In addition, ARB also administers EFMP Plus-Up in two air districts in California that are classified as extreme non-attainment (San Joaquin Valley and South Coast). EFMP Plus-Up, provides additional payment incentives (on top of the "base" EFMP incentives) to further encourage individuals to retire and replace their older, less-efficient vehicles with advanced-technology cars.

Other programs designed to incentive the purchase of ZEVs and NZEVs include the CVRP, administered by ARB and the Commission, in consultation with local air districts. CVRP provides rebates of up to \$5,000 for purchasing or leasing a new qualifying ZEV or NZEV. Specifically, CVRP allows ZEV and NEV buyers to obtain a \$5,000 rebate for a hydrogen fuel-cell vehicle; a \$2,500 rebate for a zero-emission battery electric vehicle; a \$1,500 voucher for a plug-in hybrid electric vehicle; or a \$900 rebate for a neighborhood electric vehicle. Recently, an additional incentive of \$1,500 is offered within CVRP for low-income consumers. While there is no cap on the number of rebates which may be issued, rebates are subject to funding availability and the program has more than once been forced to stop issuing rebates and create a waiting list when funds were fully expended.

Both the Legislature and the Governor have called for increased deployment of advanced-technology vehicles to improve air quality, address climate change, and meet the Governor's target of getting 1.5 million ZEVs and NZEVs on California's roadways by 2025 as well as the Legislature's goal (SB 1275) of placing one million ZEVs and NZEVs on California's roadways by 2023. These targets were set, in part, to help achieve turnover of the existing light-duty (passenger) fleet which, as part of the overall effort to address transportation sector.

The author and the sponsor (CALSTART) note that while incentive programs, such as CVRP, have been successful in encouraging ZEV and NZEV adoption, by providing over 141,000 rebates for these vehicles to date, they also point out that California is far from reaching its ZEV adoption goals. For example, they note that the ZEV Mandate requires that 15% of new car sales in 2025 must be ZEVs, yet last year, (2015) ZEVs made up only 3.1% of new cars sold. The author correctly points out that a substantial "ramp up" must occur to increase the rate of ZEV sales in order to achieve the ZEV Mandate by 2025.

To address this issue, the author has introduced this bill which would further incentivize the purchase of ZEVs and NZEV using a two-pronged approach. First, this bill would require ARB, in consultation with the Commission develop a comprehensive program to promote ZEV and NZEV deployment. While the author leaves much of the development of the program to ARB, this bill does specify certain program parameters including the requirement that the program

include an employer incentive program targeting companies located outside of population centers or companies whose employees commute from a 50-mile radius; incentives such as grants, loans, or other measures targeted to incentivize low-income individuals to purchase or lease ZEVs or NZEV; as well as unspecified on-road incentives. To ensure program evaluation occurs, this bill also requires ARB to submit an annual report to the Legislature regarding the effectiveness of the incentive program.

To further incentivize ZEV adoption, this bill also includes a variety of tax incentives. The first providing that no state sales taxes would be collected from low-income purchasers on the first \$40,000 of a qualifying vehicle. Additionally, AB 1710 also provides two separate incentives with the first lowering the buyers taxable income by \$2,500 and the second providing a tax credit of \$2,500 to the buyer. To achieve feedback on efficacy of the tax incentives, the FTB, in consultation with BOE would be required to prepare an annual report to the Legislature detailing results of the program.

Writing in support, the Global Automakers note that while the state should be commended for its efforts to encourage ZEV and NZEV adoption, despite various efforts and activities, the fact that ZEV sales remains low, and is seemingly dropping, is concerning. They note that meeting the ZEV Mandate will require consistent and ongoing support to increase ZEV and NZEV sales and meeting these goals cannot be accomplished by the automobile industry alone and, instead. To that end, they support the author's efforts further incentive the purchase of these vehicles.

Committee concerns: Undoubtedly this bill will incentivize ZEV and NZEV purchases, particularly since these incentives are added to existing incentive programs. While this bill focuses on meeting emissions reduction goals for the light-duty sector (or passenger fleet), it is important to recognize that the light-duty vehicle sector is only one component of a much larger transportation system, including ports, trucking, maritime, and rail industries, that each contribute to overall transportation sector emissions. It is also important to recognize that the freight sector has some of the greatest adverse effects on disadvantaged communities because these communities tend to border freight corridors and associated facilities such as warehouses and freight hubs. Therefore, Legislature may wish consider taking the transportation system into account when evaluating where and how much to should be allocated to achieve the greatest emissions benefits.

It is also important to note that a number of other bills on this same topic are before the Legislature this year. These bills each provide increased rebates and incentives to encourage ZEV and NZEV sales and, alone or in combination, these proposals could easily expend annual GGRF revenues many times over. Given the significant "call" on these funds, is imperative that the Legislature establish clear funding priorities and goals so that the monies can achieve the greatest possible emissions reductions benefit.

Related legislation: AB 1965 (Cooper), requires ARB to expand the Enhanced Fleet Modernization Plus Up Program in disadvantaged communities and in areas with poor air quality to increase retirement of high polluting vehicles and replace them with cleaner cars. AB 1965 is scheduled to be heard by this committee on April 11, 2016.

AB 1691 (Cooper), requires the state board, in consultation with the bureau, to adopt, as a part of the program, an element of the program to commence on July 1, 2017, subject to appropriation by the Legislature, with a goal of annually replacing 10,000 vehicles from disadvantaged

communities over a 5-year period. AB 1691 is scheduled to be heard by this committee on April 18, 2016.

AB 1851 (Gray and Ting), creates and expands a broad array of incentive programs, including but not limited to the CVRP, and apply tax credits to the purchase of ZEVs and NZEVs to increase the sales and use these clean air vehicles. AB 1851 is scheduled to be heard by this committee on April 11, 2016.

Previous legislation: SB 1275 (de León), Chapter 530, Statutes of 2014, established the Charge Ahead California Initiative that, among other things, set the goal of placing one million zero- and near-zero-emission vehicles into service on California's roadways by January 1, 2023, and increasing access to these vehicles for disadvantaged, low-, and moderate-income communities and consumers.

AB 8 (Perea), Chapter 401, Statutes of 2013, extended until January 1, 2024, extra fees on vehicle registrations, boat registrations, and tire sales in order to fund the programs that support the production, distribution, and sale of alternative fuels and vehicle technologies, as well as air emissions reduction efforts.

SB 535 (de León), Chapter 830, Statutes of 2013, required that a minimum of 25% of the available moneys in the GGRF go to projects that provide benefits to identified disadvantaged communities and that a minimum of 10% of the available moneys in the fund to projects located within identified disadvantaged communities.

AB 945 (Ting) of 2015, would have provided a partial Sales and Use Tax exemption for the purchase and use of a qualified vehicle. AB 945 was returned to the Chief Clerk by the Assembly Appropriations Committee pursuant to Joint Rule 56.

AB 1077 (Ting and Muratsuchi), of the 2013-14 Legislative Session, provided a partial SUT exemption for QMV, as specified, and reduced the amount of vehicle license fee imposed on an owner of a QMV. AB 1077 was held on the Assembly Appropriation Committee's suspense file.

AB 118, (Núñez), Chapter 750, Statutes of 2007, created the California Alternative and Renewable Fuel, Vehicle Technology, Clean Air, and Carbon Reduction Act of 2007 that required the Commission to implement the ARFVTP and provide funding measures to specified entities to develop and deploy technologies and alternative and renewable fuels in the marketplace to help attain the state's climate change policies.

AB 32 (Núñez), Chapter 488, Statutes of 2006, required the ARB to develop a plan of how to reduce emissions to 1990 levels by the year 2020 and also required ARB to ensure that, to the extent feasible, GHGs reduction requirement and programs direct public and private investment toward the most disadvantaged communities.

AB 1007 (Pavley), Chapter 371, Statutes of 2005, required ARB and the Commission to develop a plan to increase alternative fuels use in California.

AB 32, (Núñez), Chapter 488, Statutes of 2006, to develop a plan of how to reduce statewide GHG emissions to 1990 levels by 2020.

REGISTERED SUPPORT / OPPOSITION:

Support

CALSTART (Sponsor)

Alta Motors

Global Automakers

Sierra Club California

Opposition

None on file

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