Date of Hearing: April 4, 2016

ASSEMBLY COMMITTEE ON TRANSPORTATION
Jim Frazier, Chair
AB 2145 (Linder) – As Introduced February 17, 2016

SUBJECT: Vehicle replacement: rebates

SUMMARY: Requires the Department of Motor Vehicles (DMV), for the purposes of calculating vehicle license fees (VLF), to adjust the purchase price of the vehicle downward to reflect the amount of compensation that low- or moderate-income recipients receive from incentive programs toward the purchase of certain clean air vehicles. Specifically, **this bill**:

1) Requires the California Air Resources Board (ARB) to develop and issue certifications to low- and moderate-income recipients of Enhanced Fleet Modernization Program (EFMP) and the Charge Ahead California Initiative incentives used for the purchase of a newer, cleaner replacement vehicle.

2) Requires DMV, once provided with the appropriate certification from ARB, to deduct the amount of incentive funding received toward the purchase of the vehicle for the purposes of calculating VLF.

3) Makes related, clarifying amendments.

EXISTING LAW:

1) Requires ARB, pursuant to California Global Warming Solutions Act of 2006 [AB 32 (Núñez), Chapter 488, Statutes of 2006], to reduce statewide greenhouse gas (GHG) emissions to 1990 levels by 2020 by adopting regulations to achieve maximum technologically feasible and cost-effective GHG emission reductions.

2) Establishes the California Alternative and Renewable Fuel, Vehicle Technology, Clean Air, and Carbon Reduction Act of 2007 [AB 118 (Núñez), Chapter 750, Statutes of 2007], to support three programs including EFMP, under which ARB, in consultation with the Bureau of Automotive Repair (BAR), pays to permanently remove cars and small trucks from operation through voluntary retirement by their owners.

3) Establishes the Charge Ahead California Initiative, [SB 1275 (de León), Chapter 530, Statutes of 2014], that, among other things, set the goal of placing 1 million zero- and near zero-emission vehicles (ZEVs) into service on California's roadways by January 1, 2023, increasing access to these vehicles for disadvantaged, low-, and moderate-income communities and consumers, and providing additional incentives for ZEV, near-ZEV, or high-efficiency replacement vehicles.

4) Requires DMV, upon the sale of a new or used vehicle, to determine the market value of the vehicle based on the cost price to the purchaser, not including California sales taxes or local tax, for the purpose of calculating VLF.

5) Establishes by executive order B-16-2012 that set the goal of placing 1.5 million ZEVs on California's roadways by 2025.

FISCAL EFFECT: Unknown

COMMENTS: According to the author, there are a number of incentive programs created to make clean air vehicles more affordable to low- and moderate income purchasers but these incentives, while lowering the up-front purchase price of the vehicle, do nothing to address ongoing costs associated with owning the vehicle—such as higher VLFs. Specifically, the author notes that VLFs are based on the retail value of the vehicle and, as a result, low- and moderate income consumers who buy higher-value ZEVs using incentive funding, are then required to pay higher VLFs (based on the vehicle's actual value or sales price) rather than the lower, out-of-pocket cost that were actually paid by the buyer (after incentives were applied). To correct this perceived inequity, the author has introduced this bill which would ensure that low- and moderate income individuals who purchase clean air vehicles using incentive funding, pay VLF on the vehicle's price after incentives are applied rather than before incentives are applied.

The VLF was established by the Legislature in 1935 in lieu of a property tax on vehicles. The formula for VLF assessment, established by the Legislature, is based upon the purchase price of the vehicle or the value of the vehicle when it is acquired. The VLF decreases with each renewal for the first 11 years or until the vehicle is transferred. When transferred, the depreciation of the VLF is based on the new purchase price when acquired. The VLF is part of the total fees due upon initial and annual vehicle registration renewal and is currently set at 0.65% of the vehicle's value. VLF revenues are returned to cities and counties by the DMV.

Pursuant to AB 32, it is the state's goal to reduce GHG emissions to 1990 levels by 2020. Given that the transportation sector account for nearly 40% of GHG emissions, substantial efforts have been taken to reduce the numbers of high-polluting cars in the state. To accomplish this, the state has developed a number of incentive programs to encourage individuals to retire their high-polluting cars and replace them with cleaner cars. Given that areas of the state with the poorest air quality typically coincide with higher numbers of disadvantaged communities, greater effort has been placed on increasing incentives for low- and moderate- income individuals in these areas.

A number of programs have been established to incentivize the replacement of high polluting vehicles for low- and moderate income individuals and program incentives can be "stacked" to further incentivize the purchase and use of cleaner cars and especially ZEVs. For example, EFMP provides incentives ranging from $2,500 up to $4,500, depending on income level and the type of vehicle purchased. Residents living in disadvantaged communities are also eligible for up to an additional $2,500 for the purchase of a conventional hybrid vehicle or up to an additional $5,000 for the purchase of a plug-in hybrid or ZEV. All told, low-income individuals within certain areas of the state are eligible to receive up to $9,500 if they scrap their high-polluting cars and replace them with a ZEV such as a plug-in hybrid (like a Chevy Volt) or a battery electric car (such as a Nissan Leaf). Moderate-income individuals in these same areas who opt to scrap and replace their high-polluting cars for a ZEVs can receive up to $7,500 in incentive funding toward the purchase of that car.

Low- and moderate-income individuals are also eligible to receive incentives for the purchase of new, qualifying ZEV's through the Clean Vehicle Rebate Program (CVRP). CVRP is designed to promote the purchase of new battery electric, plug-in, and fuel cell vehicles and offers rebates of up to $5,000 per qualifying new light-duty vehicle. As of March 29, 2016, as required by the

Charge Ahead California Initiative (SB 1275), CVRP rebate amounts for low-income households will be increased by $1,500.

According to Valley Clean Air Now (Valley CAN), most qualifying low- and moderate-income individuals who opt to scrap their high-polluting cars and replace with a cleaner cars, typically purchase used (rather than new) ZEVs. This is the case because used ZEVs are typically more affordable (ranging in price from $10,000 to $15,000) while new ZEVs typically range in price from $35,000 to $50,000, or more depending on the make and model. Valley CAN notes that for low-income households, when the full incentives values are applied ($9,500) toward the purchase of a used ZEV, most applicants owe between $500 to $4,500, depending on the vehicle that is purchased. With available financing options, these individuals typically end up with very manageable monthly payments.

Post incentive program participation surveys conducted by Valley CAN indicate that program participants have overwhelmingly high satisfaction ratings not only about the programs but also about the ZEVs. The majority of respondents noted ZEVs saved them money because they no longer need to spend money on gas (at all or, at best, infrequently) and the cars have much lower maintenance requirements--which also saves them money. One participant reported that after opting to purchase a Nissan LEAF, after using "stacked" incentives, his monthly vehicle payments were only $60 per month, an expense that he described was more than offset by not having to purchase gasoline or pay vehicle maintenance and repair costs.

Committee concerns: While this bill is well intentioned, it seems to offer a solution where no problem exists. While VLF costs may rise slightly (in the vicinity of $100) with the purchase of a higher-value ZEV, this increased cost does not appear to be an undue burden for low- and moderate income buyers. This is evidenced by the fact that the incentive programs are consistently oversubscribed and surveys of program participants fail to reveal that slightly increased VLF fees are a deterrent to program participation. In fact, surveys of individuals who have participated in the incentive programs, indicate extreme satisfaction with the program (bordering on "giddiness") because they were able to lower their overall monthly expenses with regard to vehicle maintenance and fueling costs as well as having access to reliable transportation.

AB 2145, if implemented, would also likely result in program impacts and costs for ARB and DMV. ARB would be required to absorb costs associated with preparing certifications for all incentives issued and DMV would likely be required to increase program expenditures to retroactively adjust VLF after the point of sale. This added burden on DMV, to manually process thousands refund applications annually would likely result in increased costs to DMV as well as increased processing times. It is also likely that additional transactions to retroactively correct vehicle records and process refunds would be necessary.

Related legislation: AB 1965 (Cooper), would require ARB to expand incentive programs in disadvantaged communities and in areas with poor air quality. AB 1965 is awaiting a hearing in his committee.

Previous legislation: AB 32 (Núñez), Chapter 488, Statutes of 2006, required 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, GHG reduction requirement and programs that direct public and private investments toward the most disadvantaged communities.

AB 118 (Núñez), Chapter 750, Statutes of 2007, established the Air Quality Improvement Program administered by ARB in consultation with local air districts, and funded through surcharges on vehicle and vessel registration fees, smog abatement fees, and identification plates.

SB 535 (de León), Chapter 830, Statutes of 2012, required the Department of Finance, when developing the three-year investment plan for cap and trade monies, to allocate 25% of the funds to projects that benefit disadvantaged communities, and to allocate a minimum of 10% of available cap and trade revenues to projects allocated within disadvantaged communities.

SB 1275 (de León), Chapter 530, Statutes of 2014, established the Charge Ahead Initiative that, among other things, set the goal of placing 1 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.

REGISTERED SUPPORT / OPPOSITION:

Support

None on file

Opposition

None on file

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