SB 277

Department of Legislative Services

Maryland General Assembly
2020 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 277 (The President, *et al.*) (By Request - Administration)
Finance

Clean Cars Act of 2020 - Extension, Funding, and Reporting

This Administration bill extends through fiscal 2023 the termination dates of the qualified electric vehicle excise tax credit and the Electric Vehicle Recharging Equipment Rebate Program. The bill also (1) increases the amount of incentives available in each fiscal year; (2) alters certain eligibility requirements; (3) alters the allowable purposes for Alternative Compliance Payments (ACPs) revenues generated by the State's Renewable Portfolio Standards (RPS); and (4) extends certain reporting requirements for the Maryland Zero Emission Electric Vehicle Infrastructure Council (ZEEVIC). **The bill takes effect July 1, 2020.**

Fiscal Summary

State Effect: Strategic Energy Investment Fund (SEIF) revenues may decrease by $28.0 million in FY 2021 due to the extension of the electric vehicle excise tax credit and tax credit payments for previous fiscal years. SEIF expenditures increase by $1.8 million annually in FY 2021 through 2023 due to extension of the rebate program. The Governor's proposed FY 2021 budget includes $1.8 million in funding for the rebate program and assumes a $8.0 million reduction in SEIF revenues due to extension of the tax credit.

($ in millions)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
SF Revenue	($28.0)	($17.9)	($20.7)	$0	$0
SF Expenditure	$1.8	$1.8	$1.8	$0	$0
Net Effect	($29.8)	($19.7)	($22.5)	$0.0	$0.0

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: None.

Small Business Effect: The Administration has determined that this bill has minimal or no impact on small business (attached). The Department of Legislative Services concurs with this assessment.

Analysis

Bill Summary:

Qualified Electric Vehicle Excise Tax Credit

The program's termination date is extended through fiscal 2023. There is no limitation on the total amount of tax credits the Motor Vehicle Administration (MVA) may award in each fiscal year.

A person may claim an excise tax credit equal to $3,000 for each qualified plug-in electric vehicle or fuel cell electric vehicle. Under current law, vehicles must have a total purchase price of $63,000 or less. The bill removes this requirement for fuel cell electric vehicles. A vehicle must be acquired for use or lease by the taxpayer and be purchased new and titled for the first time beginning on July 1, 2017, through June 30, 2023.

At least $12.0 million annually in fiscal 2021 through 2023 must be transferred from SEIF to the Transportation Trust Fund (TTF) to offset the cost of the credit. However, the amount transferred in each year may not exceed the total amount of credits allowed against the excise tax for that fiscal year.

Electric Vehicle Recharging Equipment Rebate Program

The program's termination date is extended through fiscal 2023 and the maximum amount of rebates the Maryland Energy Administration (MEA) may award in each year is increased to $1.8 million.

Alternative Compliance Payments – Renewable Portfolio Standards

ACP revenues may only be used to (1) provide supplemental funding for zero-emission vehicles, zero-emission vehicle infrastructure programs, and other transportation sector greenhouse gas reduction and carbon efforts and (2) make energy-related loans and grants including support for energy efficiency measures, solar renewables, and other Tier 1 renewables that directly benefit low- to moderate-income residents of the State. In each fiscal year, at least 50% of the energy-related loans and grants must directly benefit low-income residents of the State.

Maryland Zero Emission Electric Vehicle Infrastructure Council

ZEEVIC is required to submit three additional interim reports to the General Assembly. The bill also delays by three years ZEEVIC's final report, which is due June 30, 2023.

Current Law:

Qualified Electric Vehicle Tax Credits

State Credit

Subject to available funding, a person who purchases a qualified plug-in electric vehicle or a qualified fuel cell electric vehicle may claim a credit against the vehicle excise tax. The credit is equal to 100% of the excise tax imposed, not to exceed $3,000. A qualifying vehicle must have (1) a total purchase price of $63,000 or less and (2) for plug-in electric vehicles, a battery capacity of at least 5.0 kilowatt-hours. The credit is limited to 1 vehicle per individual and 10 vehicles per business entity.

The credit is available for qualified vehicles that are newly acquired and titled for the first time through June 30, 2020.

MVA may award a maximum of $6.0 million in credits in fiscal 2020. MEA must transfer from SEIF to TTF the lesser of $6.0 million or the actual amount of tax credits allowed in the fiscal year.

Federal Credit

Qualified electric vehicles may also qualify for a federal income tax credit of up to $7,500. The tax credit begins to phase out for vehicles produced by a manufacturer that has sold a total of 200,000 qualified vehicles (cumulative U.S. sales since December 31, 2009). The credit is phased out or in the process of phasing out for vehicles that are manufactured by General Motors and Tesla Motors. The tax credit program terminates at the end of calendar 2020.

Electric Vehicle Recharging Equipment Rebate Program

The Electric Vehicle Recharging Equipment Rebate Program, administered by MEA, provides rebates to individuals, businesses, and to State and local governments. The rebate is equal to 40% of the cost of property that is located in the State and used for recharging vehicles propelled by electricity, subject to specified maximum values. MEA may also reimburse a person for the reasonable costs of installing the qualifying equipment. An individual may not receive more than one rebate, but there are no limits on the number of rebates that can be issued to other entities.

MEA may award an annual maximum of $1.2 million in rebates through fiscal 2020, with funding for these rebates provided by a transfer from SEIF.

Strategic Energy Investment Fund

Chapters 127 and 128 of 2008 created the Maryland Strategic Energy Investment Program and the implementing SEIF to decrease energy demand and increase energy supply to promote affordable, reliable, and clean energy. SEIF is primarily funded through the proceeds from the auction of carbon allowances to power plants under the Regional Greenhouse Gas Initiative.

Maryland's RPS requires that renewable sources generate specified percentages of Maryland's electricity supply each year. Electric companies (utilities) and other electricity suppliers must submit renewable energy credits equal to these percentages in each year or else pay an ACP equivalent to the shortfall. ACP revenues are deposited into SEIF and may only be used to make loans and grants to support the creation of new Tier 1 renewable energy sources in the State that are owned by or directly benefit low-income residents of the State.

Solar ACPs must be accounted for separately in the fund and may only be used to support the creation of new solar energy sources in the State that are owned by or directly benefit low-income residents of the State.

A low-income resident has an annual household income at or below 175% of the federal poverty line. In calendar 2020, this translates to a family of four with an income of $45,850 or less.

Maryland Zero Emission Electric Vehicle Infrastructure Council

Chapters 400 and 401 of 2011 established the Maryland Electric Vehicle Infrastructure Council (EVIC) and required it to develop a plan to expand the adoption of electric vehicles and develop an infrastructure charging network. Chapter 213 of 2019 expanded the membership, responsibilities, and reporting requirements of EVIC to include a focus on fuel cell electric and zero emission vehicles and renamed the council as ZEEVIC.

Background:

Qualified Electric Vehicle Excise Tax Credit

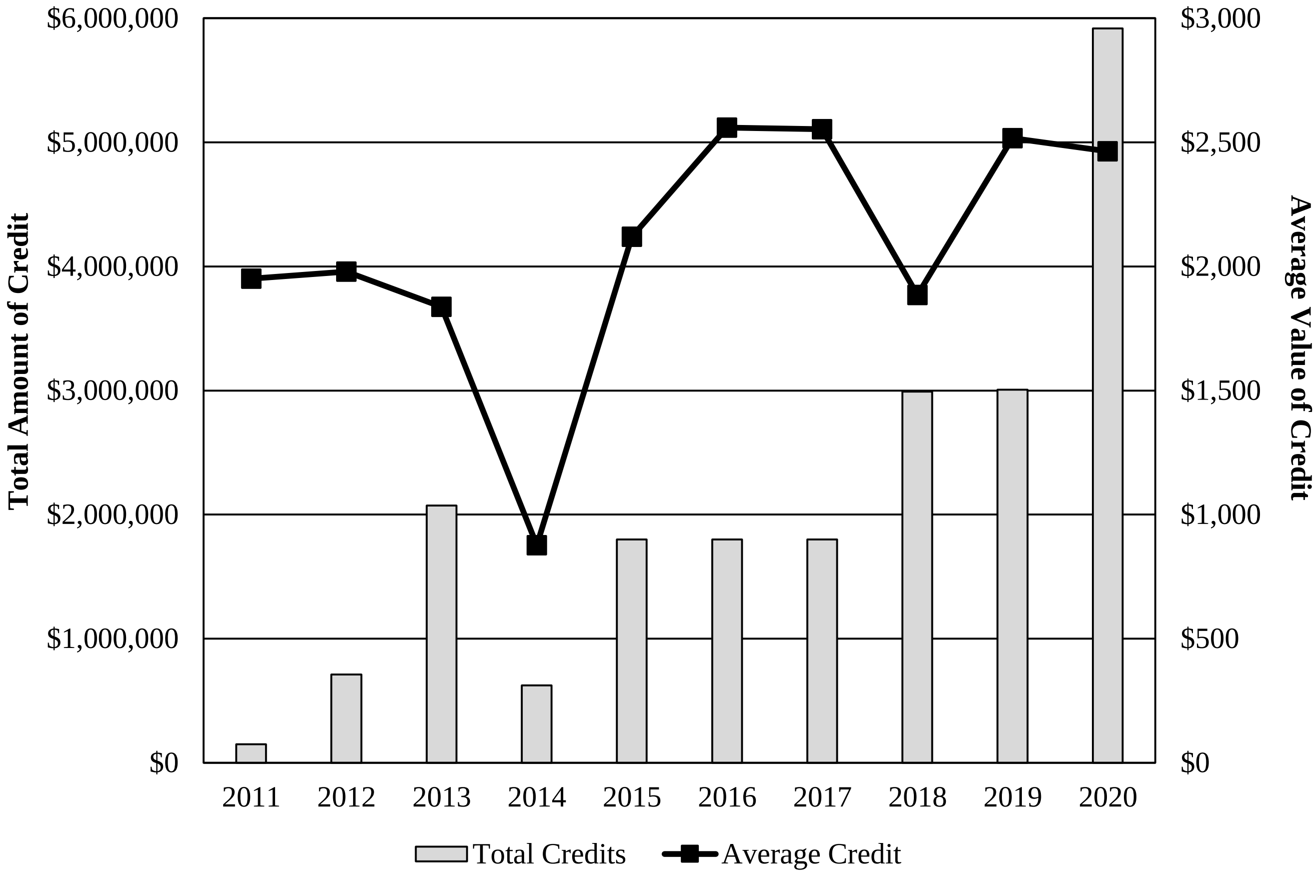
The plug-in electric vehicle and fuel cell electric vehicle excise tax credit, established by Chapter 490 of 2010, has provided tax credits for the purchase of qualified vehicles since fiscal 2011. The tax credit has been altered, expanded, and extended through legislation five times. The initial legislation did not limit the total credits allowed in each fiscal year. However, Chapters 359 and 360 of 2014 limited to $1.8 million the maximum amount of credits allowed in each fiscal year. Chapters 362 and 363 of 2017 increased the limitation to $3.0 million in fiscal 2018 through 2020. Chapter 213 of 2019 further increased the limit to $6.0 million for fiscal 2020. Chapter 213 also extended eligibility for the purchase of qualified fuel cell vehicles.

Legislation has authorized transfers from the SEIF to offset part or all of the TTF revenue decreases due to the tax credit. These transfers are equal to:

- $279,000 in fiscal 2011;
- $939,600 in fiscal 2012;
- $1,287,000 from fiscal 2013 through 2017;
- $2,400,000 in fiscal 2018 and 2019; and
- $6,000,000 in fiscal 2020.

As shown in **Exhibit 1,** MVA reports that it has awarded the maximum amount of tax credits in each year since fiscal 2015, the first year in which there was a maximum limit of credits that could be awarded. MVA indicates that fiscal 2019 program funding was fully expended on February 11, 2019, and fiscal 2020 funding was fully expended on September 13, 2019. MVA created a waitlist for individuals who qualified for the tax credit but did not receive a credit as the amount of total credits sought in the fiscal year exceeded the program's funding. In fiscal 2020, MVA has awarded a total of 2,401 tax credits with an average value of $2,465. A significant portion of fiscal 2020 funding provided tax credits to individuals who qualified for the tax credit in fiscal 2019, but did not receive a credit due to this limitation. As of January 2020, MVA reports that 2,585 applications are on the waitlist, some of which are from fiscal 2019. This does not include subsequent applications received through the end of the current fiscal year.

Exhibit 1
Electric Vehicle Tax Credit
Total and Average Tax Credits Claimed
Fiscal 2011-2020



Source: Motor Vehicle Administration

Electric Vehicle Recharging Equipment Rebate Program

Chapter 402 of 2011 established the electric vehicle recharging equipment tax credit program. In each year, the tax credits issued could not exceed (1) $400,000 in tax year 2011; (2) $500,000 in tax year 2012; and (3) $600,000 in tax year 2013.

Chapter 389 of 2013 extended the tax credit program through tax year 2016, maintaining the maximum credit limitation at $600,000. SEIF revenues were transferred to the general fund to offset the revenue loss from the tax credit in each of these years.

Chapters 359 and 360 of 2014 replaced the tax credit with a rebate program beginning in fiscal 2015. The total amount of rebates was limited to $600,000. Chapters 362 and 363 of 2017 extended the rebate program through fiscal 2020, generally decreased the value of the rebates, and increased to $1.2 million the maximum amount of rebates that could be awarded in each fiscal year.

MEA indicated that in fiscal 2019 the maximum $1.2 million in rebates were awarded as of mid-February 2019. The agency used approximately $475,000 or 40% of the program's fiscal 2020 funding to issue rebates to applicants who were on a waitlist from fiscal 2019. MEA has awarded the maximum amount of authorized rebates in fiscal 2020 and is developing a waitlist for applicants who have not received rebates.

State Fiscal Impact: The bill extends through fiscal 2023 the termination dates of the Electric Vehicle Recharging Equipment Rebate Program and the qualified electric vehicle excise tax credit. As a result, the net effect on State finances will be a decrease of $29.8 million in fiscal 2021. **Exhibit 2** details the fiscal impact of the bill.

Exhibit 2
Fiscal Impact of Legislation
Fiscal 2021-2025
($ in Millions)

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Revenues					
Vehicle Excise Tax Credit	($28.0)	($17.9)	($20.7)	$0.0	$0.0
Expenditures					
Rebate Program	$1.8	$1.8	$1.8	$0.0	$0.0
Net Effect	**($29.8)**	**($19.7)**	**($22.5)**	**$0.0**	**$0.0**

MEA may award an annual maximum of $1.8 million in rebates in fiscal 2021 through 2023. Though not mandated by the bill, the Governor's proposed fiscal 2021 budget includes $1.8 million in SEIF funds for the rebate program. It is assumed that the program receives the same funding in fiscal 2022 and 2023.

To the extent applicants seek more rebates than authorized in each fiscal year and (notwithstanding the limitations on the annual amount of refunds authorized by the bill) MEA provides rebates to these applicants, expenditures will be greater than estimated in future years.

In order to offset the cost of the vehicle excise tax credit, MEA must transfer in each fiscal year from SEIF to TTF at least $12.0 million or the total credits allowed against the excise tax in the fiscal year. Notwithstanding the limitations established by legislation for prior fiscal years of the program, MVA created a waitlist for those applicants who did not receive funding due to the funding limitation. Based on information provided by the agency, it is estimated that fiscal 2019 and 2020 waitlist applicants will receive $13.4 million in tax credits. It is assumed that, in fiscal 2021, MEA will transfer this amount from SEIF to satisfy this current liability.

The bill does not limit the total excise tax credits that can be awarded in fiscal 2021 through 2023. Based on projected United States electric vehicle sales, of which there is considerable uncertainty, and the estimated percentage of these vehicles that currently qualify for the tax credit, a total of $14.6 million in credits will be claimed in fiscal 2021, $17.9 million in fiscal 2022, and $20.7 million in fiscal 2023.

Given the estimate assumes a similar percentage of electric vehicles purchased and titled in Maryland will qualify throughout the forecast period, it likely underestimates future revenue losses as vehicle technology continues to improve and vehicle prices decrease.

Allowing MEA to use funds from SEIF for additional purposes does not affect overall SEIF expenditures, although individual programs currently funded by SEIF may receive less funding.

Additional Information

Prior Introductions: None.

Designated Cross File: HB 359 (The Speaker, *et al.*) (By Request - Administration) - Environment and Transportation.

Information Source(s): Maryland Department of Transportation; Maryland Energy Administration; Morningstar, Incorporated; U.S. Internal Revenue Service; Department of Legislative Services

Fiscal Note History: First Reader - February 10, 2020
an/hlb

Analysis by: Robert J. Rehrmann

Direct Inquiries to:
(410) 946-5510
(301) 970-5510

ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Zero Emission Vehicle Excise Tax Credit Extension

BILL NUMBER: SB277/HB359

PREPARED BY: Landon Fahrig

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

_X_ WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

___ WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

Small business will be limited to 5, instead of 10, excise tax credits in any given year. Only small businesses with large single-year fleet vehicle purchases will be impacted.