Department of Planning and Budget
2014 Fiscal Impact Statement

1. **Bill Number:** SB505

   House of Origin ☒ Introduced ☐ Substitute ☐ Engrossed

   Second House ☐ In Committee ☐ Substitute ☐ Enrolled

2. **Patron:** Wagner

3. **Committee:** Transportation

4. **Title:** Natural gas; incentives for expanded use as transportation fuel.

5. **Summary:** Establishes financial and regulatory incentives for expanding the use of compressed natural gas (CNG) and liquefied natural gas (LNG) for transportation purposes in the Commonwealth. Vehicles fueled, wholly or partially, by natural gas are authorized to weigh up to 2,000 pounds more than the applicable weight limit, and the bill provides that limits on hauling hazardous materials over a bridge or through a tunnel do not apply to fuel required to propel the vehicle. The bill provides for the titling and registration of natural gas vehicles (NGVs) and converted natural gas vehicles, including a provision that the motor vehicle titling tax on NGVs apply to the value of such vehicle without a CNG or LNG system.

   The bill establishes a Natural Gas Vehicle Incentive Fund and grant programs through which money in the Fund may be expended for increasing public access to natural gas fueling stations, purchasing NGVs, or converting vehicles to natural gas. Revenues for the Fund come from moneys allocated by the Commonwealth Transportation Board; registration fees for NGVs; clean special fuel license plate fees; the Natural Gas Consumption Tax; severance taxes on natural gas; revenues from taxes on pipeline transmission and distribution companies, including the special regulatory revenue tax; and such other funds as may be appropriated.

   The bill exempts natural gas home refueling appliances from the sales and use tax, allows taxicabs fueled by natural gas to move to the front of an airport queue, allows trucks bearing clean special fuel stickers to use high-occupancy vehicle lanes, and provides for the reimbursement of tolls for operators of NGVs. The bill further allows public access to state fueling areas and clarifies that refunds on motor fuel taxes apply to commercial equipment using natural gas. The measure requires the Department of General Services' plan for the replacement of state-owned or operated vehicles with alternative-fueled vehicles to include a provision requiring the purchase of NGVs rather than conventional vehicles or other vehicles that operate using alternative fuels whenever the life-cycle cost for such vehicles is not more than 10 percent greater than for conventional vehicles.

   The measure increases the membership of the Board of Directors of the Virginia Universities Clean Energy Development and Economic Stimulus Foundation to include a non-legislative citizen member who shall represent an association advocating growth in North America of the use and acceptance of vehicles powered by natural gas. The purpose of the Foundation is expanded to include advancing the goal of increasing the number of NGVs operating within the Commonwealth. The powers of the Foundation's Board of Directors are augmented to include providing assistance to the Department of Motor Vehicles in its awarding of competitive grants and other incentives relating to NGV fueling facilities and related infrastructure, conversions of conventionally fueled vehicles to NGVs, and purchases of original equipment manufacturer (OEM) NGVs. The measure exempts certain materials provided to the Department of Motor Vehicles from the public records requirements of the Freedom of Information Act. Memoranda, staff evaluations, and other records prepared by the Department or its staff exclusively for the evaluation of grant applications are also exempted from the Act. The measure authorizes the Department to hold closed meetings to discuss or consider such records.

The measure also requires that CNG sold at retail for use as a motor fuel be dispensed in gasoline gallon equivalent (GGE) units or diesel gallon equivalent (DGE) units and that LNG sold at retail for use as a motor fuel be dispensed in DGE units. The measure provides that, notwithstanding weights and measures equivalents published by the National Institute of Standards and Technology, a GGE of CNG shall initially be set at 5.66 pounds, a DGE of CNG shall initially be set at 6.38 pounds, and a DGE of LNG shall initially be set at 6.06 pounds. These levels may be changed pursuant to regulation adopted by the Commissioner of Agriculture and Consumer Services if changes occur in the energy content of motor fuels, in which event the Commissioner shall take into consideration whether the National Conference on Weights and Measures has adopted similar standards for dispensing CNG and LNG.

Commencing January 1, 2015, any dispenser used for the sale of CNG or LNG at retail for use as motor fuel shall display the GGE or the DGE unit as the primary display information provided. The dispenser shall indicate (i) the number of GGEs or DGEs sold, (ii) the total sales price of the CNG or LNG dispensed, and (iii) the sales price per GGE or DGE of the CNG or LNG sold. The measure excludes any person who is not a public service corporation and who provides CNG or LNG fueling service at retail from the meaning of the terms "public utility," "public service corporation," or "public service company." The ownership or operation of a facility at which such a fueling service is sold, and the selling of such service from that facility, does not render the person a public utility, public service corporation, or public service company solely because of that sale, ownership, or operation. The provision of CNG or LNG fueling service by a person who is not a public utility shall not constitute the retail sale of natural gas if the natural gas furnished in connection with the provision of such service is used solely for transportation purposes.

Providing CNG or LNG fueling service is declared to be a permitted natural gas utility activity of a certificated natural gas utility. A natural gas utility may establish a CNG home fueling appliance loan program under which it may offer to its residential customers the option to lease a CNG home fueling appliance from the utility at amounts that are subsidized by the utility. Finally, the measure requires the Virginia Port Authority to conduct a study of the issues related to the sitting of LNG storage and refueling facilities in the Hampton Roads region for transportation purposes.

6. **Budget Amendment Necessary**: Yes. Items 79, 414, 435, and 445.

7. **Fiscal Impact Estimates:** Preliminary. See Item 8.

8. **Fiscal Implications:**

Expenditure Impact:

It is impossible to accurately determine the impact of this bill; however this legislation could possibly have a direct fiscal impact on the following agencies: the Department of Taxation, Department of General Services, Department of Motor Vehicles, Virginia Department of Agriculture and Consumer Services, Department of State Police, state agencies utilizing fleet vehicles, and the Virginia Department of Transportation.

The Department of Taxation (Taxation) has not assigned any administrative costs to this bill because the changes required by a single bill such as this can be implemented as part of the annual changes to its systems and forms. As stand-alone legislation, the Department considers implementation of this bill as "routine," and does not require additional funding.

The Department of General Services' (DGS), Office of Fleet Management Services (OFMS), manages the centralized leased fleet of approximately 4,000 vehicles. According to DGS, the average lifecycle cost of a fleet vehicle is calculated to be approximately $39,000 taking into account the vehicle purchase price, fuel, maintenance, operation, and resale value, with an average lifespan of seven years. The fiscal impact provided by DGS assumes the purchase of natural gas-fueled vehicles when the life-cycle cost of the natural gas-fueled vehicle is not more than 10 percent greater than conventional vehicles. The additional cost for these vehicles would be passed onto state agencies using these vehicles. The OFMS replaces approximately 500 vehicles per year, equating to a potential annual fiscal impact of approximately $278,000 (($39,000 x 10%) x 500)/7 years).

DGS Estimated Expenditure Impact:

Fiscal Year	***Dollars***	***Positions***	***Fund***
2015	$278,000	0.00	ISF (Internal Service Fund)
2016	$556,000	0.00	ISF
2017	$834,000	0.00	ISF
2018	$1,112,000	0.00	ISF
2019	$1,390,000	0.00	ISF
2020	$1,668,000	0.00	ISF

According to the Department of Motor Vehicles (DMV), this legislation could impact DMV operations and have some expenditure impact. The legislation would make DMV responsible for administering two competitive grant programs, which would be funded with monies from the Natural Gas Vehicle Incentive Fund. In making awards DMV would receive assistance from the Board of Directors of the Virginia Universities Clean Energy Development and Economic Stimulus Foundation.

The Access to Natural Gas Grant Program would provide awards to facilities that supply fuel to natural gas vehicles. Grants would range up to $400,000, depending on the type of facility involved. Grant applications would be accepted only for a five-year period—from January 1, 2015, through December 31, 2019.

The Natural Gas Vehicle Grant Program would provide awards to individuals purchasing an OEM natural gas vehicle or converting a vehicle to natural gas. No more than 15 of these grants would be awarded each year, and awards would be capped at $25,000 each. The period for submitting grant applications would begin on January 1, 2015, and would end on December 31, 2019, for OEM natural gas vehicles and on December 31, 2020, for converted natural gas vehicles (though the conversion itself would have to be completed by the end of 2019).

DMV has estimated the costs of administering the grants programs at $207,270 annually for FY 2015 through FY 2021, including the costs of three associated positions. They also estimate incurring one-time costs for information technology of $200,270 for implementation in FY 2015

DMV has stated that for the clean special fuel stickers program, window decals would vary in cost depending on the size, color, and material used. Considering currently available decal production costs, a 3-4" square decal with applicable printing would cost approximately $1.10 each. However, the agency would have to either contract with a vendor for production or develop this capacity in house, so the exact cost is indeterminate. Since these stickers would be provided to applicants at cost, the expenditure impact should be offset by the fees collected for the stickers.

According to the Virginia State Police, this legislation would reduce the department's High Occupancy Vehicle (HOV) fund thereby reducing the Department's ability to provide enhanced HOV enforcement per the Code of Virginia.

Virginia State Police received $384,915 in FY14 for this purpose. The nongeneral fund is used for special enforcement projects, communications devices/fees and specialized law enforcement supplies/equipment.

This bill will have a minimal fiscal impact on the Department of Agriculture and Consumer Services. The department will need to purchase test containers in order to inspect compressed natural gas and liquefied natural gas dispensers. The department estimates that these test containers will cost less than $10,000. The department does not anticipate it will incur any additional workload costs related to this bill, as compressed natural gas and liquefied natural gas dispensers will simply be added to the scope of devices that the weights and measures program staff inspects.

Institutions of higher education and state agencies with using state fleet vehicles could incur increased costs given the lack of fueling centers in many rural areas of the state.

The Department of Transportation (VDOT) will incur administrative costs overseeing the National Gas Vehicle Incentive Fund for the Commonwealth Transportation Board. The agency may also incur increased highway maintenance costs associated with the growth of vehicles using natural gas due to the heavier weight of these vehicles.

Revenue Impact:

Income Tax

According to the Department of Taxation (TAX), the bill would dedicate revenues from five percent of the Corporate Income Tax revenues from pipeline distribution companies and five percent of the Individual Income Tax revenues from pipeline transmission companies to the Natural Gas Vehicle Incentive Fund ("Fund"). This would result in an unknown revenue loss to the General Fund and an unknown revenue gain to the Fund. Currently, TAX does not have information regarding income tax revenues specific to pipeline distribution companies and pipeline transmission companies.

Retail Sales and Use Tax

The bill would also provide Retail Sales and Use Tax exemptions for certain compressed natural gas home fueling appliances and compressed natural gas and liquefied natural gas station fueling equipment. This provision would result in an unknown reduction of future possible sales and use tax revenues to the general fund.

Local Severance Tax

The bill would dedicate 50 percent of the local additional license tax on every person engaging in the business of severing gases from the earth, except in localities that comprise the Virginia Coalfield Economic Development Authority ("Authority"). In those localities, 50 percent of revenues derived from the tax are currently dedicated to the Authority. This bill would split the revenues currently dedicated to the Authority and split them between the Authority and the Fund. This provision would result in an unknown revenue loss to the Authority and a corresponding revenue gain to the Fund.

Registration Fees

This bill would dedicate registration fees for natural gas vehicles to the Fund. This provision would have an unknown negative revenue impact on the Highway Maintenance and Operating Fund and an unknown positive revenue impact on the Fund.

9. **Specific Agency or Political Subdivisions Affected:** Department of Taxation, Department of General Services, Department of Motor Vehicles, University of Virginia at Wise, Virginia State University, Virginia Department of Agriculture and Consumer Services, Department of

State Police, the Virginia Department of Transportation and any state agency using fleet vehicles which run on natural gas.

10. Technical Amendment Necessary: No.

11. Other Comments: None.

C. Secretary of Transportation
1/21/2014
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