LEGISLATIVE FISCAL ESTIMATE
SENATE COMMITTEE SUBSTITUTE FOR
SENATE, No. 2351
STATE OF NEW JERSEY
210th LEGISLATURE
DATED: JANUARY 13, 2004

SUMMARY

Synopsis: Requires DEP to implement California Low Emission Vehicle program; establishes review commission; establishes sales tax exemption for purchase or lease of zero emission vehicles and qualified hybrid vehicles; establishes sunset provision for California Low Emission Vehicle program.

Type of Impact: Revenue loss, General Fund.

Agencies Affected: Department of the Treasury.

Office of Legislative Services Estimate

<table>
<thead>
<tr>
<th>Fiscal Impact</th>
<th>Fiscal Years 2005-2006</th>
<th>Fiscal Year 2007</th>
<th>Fiscal Year 2008</th>
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<tbody>
<tr>
<td>State Cost</td>
<td>$421,000-$842,000 per year</td>
<td>$39,300,000</td>
<td>$31,200,000</td>
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</tbody>
</table>

* The fiscal estimate only evaluates the impact of the sales and use tax exemption for new zero emission and hybrid vehicles, and does not address any impact the bill might leave on state administrative costs.

* The fiscal estimate considers hybrid vehicles only, as zero emission vehicles are presently not available.

* In line with the proposed mandate under the California program, OLS assumes that hybrid car sales will comprise four percent of all new car sales in FY 2007 and FY 2008.

* The sales and use tax exemption expires on April 15, 2008, so that the mandate that four percent of automotive dealers’ sales fleets comprise zero emission or hybrid vehicles would be in effect for about 18 months.

BILL DESCRIPTION

Senate Committee Substitute for Senate Bill No.2351 of 2003 substitutes the more stringent Phase II of the California Low Emission Vehicle program for New Jersey's existing low emission vehicle program under the federal "Clean Air Act" beginning two motor vehicle model years after the bill's effective date. The California program sets more ambitious pollution limits on all new vehicles sold and it requires that four percent of automotive dealers’ sales fleet comprise zero emission or hybrid vehicles by 2006.
The bill charges the Department of Environmental Protection with the implementation of the program. Furthermore, it establishes a 14-member low emission vehicle review commission to evaluate New Jersey’s implementation of the Phase II program and to study the economic development opportunities of zero emission vehicle technology as well as the eventual need for additional State policies to prepare for the program’s model year 2012 zero emission vehicle requirement. In addition, the commission determines whether the State’s pecuniary incentives suffice to encourage the purchase of zero emission and qualified hybrid vehicles.

As an incentive, the bill exempts from the State sales and use tax sales of zero emission vehicles beginning on the date of implementation of the Phase II program in New Jersey and sales of qualified hybrid vehicles beginning on the first day of the fourth month after the bill takes effect. These tax exemptions expire on April 15, 2008.

The bill’s provisions expire on April 15, 2008, unless reauthorized by law either by December 15, 2007, or within 120 days of the commission’s submission of its report, whichever is later.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

In this fiscal estimate, the Office of Legislative Services (OLS) only analyzes the fiscal impact of the bill’s sales and use tax exemption. While OLS believes that the administrative cost of the program may be significant, uncertainty about the nature and magnitude of the administrative process makes it infeasible to make a cost estimate for administration.

OLS estimates that State sales and use tax revenue would decline by $421,000 in FY 2004 if the sales and use tax exemption for zero emission and qualified hybrid vehicles were already in effect. OLS further anticipates that this bill would lower State sales and use tax revenue by $421,000 to $842,000 per year in FY 2005 and FY 2006 and by $39.3 million in FY 2007 and by $31.2 million in FY 2008. The exemption would have no effect after that year.

To gauge the anticipated cost of the exemption, OLS multiplies the expected number of hybrid cars sold per fiscal year by the expected average price per hybrid car and by the current sales and use tax rate of six percent. Because zero emission vehicles are currently not being marketed, OLS ignores them due to a lack of meaningful sales data.

The above sales and use tax exemption expires on April 15, 2008, while the requirements of the California program are expected to apply to the last 18 months of this period. During those 18 months, the bill mandates that four percent of an automotive dealer’s new car fleet be hybrid cars. For this fiscal estimate, OLS assumes that sales of hybrids will reflect this mandated target.

The list prices of base hybrid models currently on the market--Toyota Prius, Honda Civic Hybrid, and Honda Insight--start at around $20,000, so that OLS assumes that the average hybrid sells for $23,000. For fiscal years 2007 and 2008, this average price estimate seems to underestimate the real expected price, but since the hybrid car market is just nascent, OLS refrains from projecting its trends. For example, manufacturers intend to introduce hybrid models prior to FY 2007 that would likely cost more than $23,000.
To estimate the number of hybrids sold in New Jersey in fiscal years 2004 through 2008, OLS uses New Jersey Coalition of Automotive Retailers data. Since the figures are for calendar years 2003 and 2007, OLS assumes that the number of hybrid sold in a fiscal and a calendar year will not differ significantly. Moreover, OLS assumes that the number of hybrids sold will double until FY 2006, the last year not subject to the mandated target, and that the number of hybrids sold in fiscal years 2007 and 2008 will be identical. Consequently, the fiscal estimate is based on the assumption that 305 hybrids will be sold in FY 2004, 610 in FY 2006, 28,500 in FY 2007, and 22,600 in FY 2008. The FY 2008 figure reflects the April 15, 2008 expiration date for the sales and use tax exemption, which is 2.5 months prior to the end of the fiscal year.