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DEPARTMENT OF  
FINANCE

CITY OF SACRAMENTO  
CALIFORNIA

BUDGET AND POLICY REVIEW

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April 30, 2002

Law and Legislation Committee  
Sacramento, California

Honorable Members in Session:

**SUBJECT: ASSEMBLY BILL 2461 – VEHICLE LICENSE FEE:  
ALTERNATIVE FUEL VEHICLE EXEMPTION**

**LOCATION AND COUNCIL DISTRICT:** Citywide

**RECOMMENDATION:**

Staff recommends that the Law and Legislation Committee support AB 2461, which would extend the existing Vehicle License Fee exemption on the incremental cost of alternative fuel vehicles through the January 1, 2009.

**CONTACT:** Aaron B. Chong, Senior Management Analyst, 264-6747

**FOR THE COMMITTEE MEETING OF:** May 7, 2002

**BACKGROUND:**

In 1998, Governor Wilson signed SB 1782 (Thompson) which established an exemption on the "incremental cost" of an alternative vehicle from the vehicle license fee.

"Incremental cost" is the cost above that of a comparable gasoline vehicle. The law is scheduled to "sunset" at the end of this year, unless extended by AB 2461 (Keeley).

Most alternative-fuel vehicles are currently more expensive than conventional gasoline vehicles because they use new, less polluting technologies, and are being built in very low numbers so they have not yet achieved the economies of scale that comes with mass production.

The cleanest of the alternative-fuel vehicles, zero-emission electric vehicles (EVs) may have cost which are twice that of conventional gasoline vehicles. However, these vehicles provide significant environmental and energy security benefits. EVs reduce pollution by more than 98 percent, in comparison to the average new car in 2002 while reducing petroleum consumption by 100 percent.

Under SB 1782, vehicle license fees were equalized so that the alternative fuel vehicle would have the same fees as that of a comparable gasoline vehicle. Consequently, consumers purchasing or leasing EVs or other alternative fuel vehicles would pay their fair share of license fees but would not be taxed more than a comparable gasoline vehicle.

#### **DISCUSSION:**

The purpose of AB 2461, authored by Speaker Fred Keeley, is to maintain the Vehicle License Fee (VLF) exemption on the incremental cost of alternative fuel vehicles, thus keeping the clean air vehicles from being taxed at a higher rate than comparable gasoline vehicles.

The bill would not exempt alternative fuel vehicles from all vehicle license fees; it would extend the existing VLF exemption through the end of 2008.

According to the Sacramento Metropolitan Air Quality Management Board, mobile sources are responsible for approximately 70 percent of the air emissions in the Sacramento metropolitan area and the use of alternative fuel vehicles is an important regional and statewide strategy to reduce air pollution.

Staff has prepared a sample support letter as “**Attachment I**” and a copy of the state bill is attached as “**Attachment II**”.

#### **FINANCIAL CONSIDERATIONS:**

According to the Department of Motor Vehicles (DMV), this bill could result in a statewide local government revenue loss of \$1 million in FY 2003-04 and \$1.7 million in FY 2004-05.

The State Energy Commission, the Air Resources Board and the California Electric Transportation Coalition estimate that there are fewer alternative fuel vehicles currently on the road compared to the DMV rolls. The California Electric Transportation Coalition estimates that the bill could result in a statewide local government revenue loss of approximately \$135,000 for fiscal year 2003-2004.

#### **POLICY CONSIDERATIONS:**

Although there is an impact to the City’s General Fund, there are significant potential regional benefits to the Sacramento metropolitan region, including the reduction of air pollution from mobile sources; the reduction of future pressures for additional

environmental controls on existing and new regional businesses and industries; and the creation of new advanced transportation technology jobs and industry in California.

**ESBD CONSIDERATIONS:**

There are no ESBD considerations. No goods or services are being purchased at this time.

Respectfully submitted:

A handwritten signature in black ink, appearing to read 'A. Chong', with a long horizontal flourish extending to the right.

Aaron B. Chong  
Senior Management Analyst

**RECOMMENDATION APPROVED:**

A handwritten signature in black ink, appearing to read 'Betty Masuoka', written in a cursive style.

Betty Masuoka,  
Assistant City Manager.

0507

May 7, 2002

The Honorable Fred Keeley  
California State Assembly  
State Capitol  
Sacramento, CA 95814

RE: AB 2461 – SUPPORT

Dear Assemblymember Keeley:

On behalf of the City of Sacramento's Law and Legislation Committee, the City of Sacramento is pleased to support your efforts to extend the existing vehicle license fee exemption for electric and alternative fuel vehicles, as written in AB 2461.

Mobile sources are responsible for approximately 70 percent of the air emissions in the Sacramento area and the use of alternative fuel vehicles is an important regional and statewide strategy to reduce air pollution.

AB 2461 would have the practical effect of ensuring that those consumers who choose to purchase environmentally beneficial vehicles are not penalized with a higher Vehicle License Fee (VLF) than if they instead purchased the equivalent gasoline vehicle. This bill would extend the existing VLF exemption on the incremental cost of electric and alternative vehicles through the end of 2008.

We need to encourage cleaner cars and trucks if we are going to solve our air quality problems and we support this legislation as a way to accomplish that goal.

Sincerely yours,

STEVE COHN,  
Chair, Law and Legislation Committee

Cc: City Council

CALIFORNIA LEGISLATURE—2001-02 REGULAR SESSION

**ASSEMBLY BILL**

**No. 2461**

**Introduced by Assembly Member Keeley**

February 21, 2002

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An act to amend Section 10759.5 of the Revenue and Taxation Code, relating to taxation, to take effect immediately, tax levy.

LEGISLATIVE COUNSEL'S DIGEST

AB 2461, as introduced, Keeley. Taxation: vehicle license fees: low-emission vehicles.

The Vehicle License Fee Law provides that the annual amount of the license fee for any vehicle is 2% of the market value of the vehicle, as specified. It provides for the determination of the market value of any vehicle, for reclassification to increase the market value of a vehicle, and for the exemption of certain vehicles from the imposition of the license fee.

Existing law, until January 1, 2003, for purposes of determining the vehicle license fee, exempts from the determination of market value, the incremental costs, as defined, that are incurred with respect to a new light-duty motor vehicle propelled by an alternative fuel that is certified by the State Air Resources Board as producing emissions that meet, or are lower than, the emission standards and other specifications for ultra-low-emission vehicles, as defined by the board.

This bill would extend these provisions until January 1, 2009, and would make certain legislative findings and declarations regarding vehicle emissions.

This bill would take effect immediately as a tax levy.

Vote: majority. Appropriation: no. Fiscal committee: yes. State-mandated local program: no.

*The people of the State of California do enact as follows:*

1     SECTION 1. Legislature finds and declares:

2     (a) There is a wide disparity on some state and local taxes and  
3 fees levied on owners of vehicles operated on alternative fuels  
4 when compared to those same taxes and fees levied on owners of  
5 comparable conventional fuel vehicles.

6     (b) In some cases, the taxes and fees on alternative fuel vehicles  
7 are more than twice as much as those for conventional fuel  
8 vehicles.

9     (c) The disparity in taxes and fees exists even though the  
10 alternative fuel vehicle may look identical to the conventional fuel  
11 vehicle and provide the same or lesser utility to the individual  
12 owner.

13     (d) The existing California vehicle license fee and state and  
14 local sales and use taxes on the sale or lease of motor vehicles that  
15 operate on alternative fuels are higher than for comparable  
16 conventional fuel vehicles because alternative fuel vehicles  
17 generally have higher sales prices. The higher sales prices are  
18 largely due to the fact that these vehicles are produced in extremely  
19 low volumes (many assembled by hand), such that their  
20 production has not achieved the economies of scale that would  
21 significantly reduce their cost; and they use many new advanced  
22 materials and technologies that also have not yet achieved  
23 economies of scale, and therefore have a temporarily greater cost  
24 to consumers.

25     (e) The higher sales prices for these alternative fuel vehicles are  
26 expected to be a short-term, temporary situation because prices are  
27 expected to decline significantly to competitive levels as volume  
28 increases. If this does not occur, these vehicles may never be  
29 competitive, and automakers would likely withdraw them from  
30 the market. The current vehicle license fee mechanism, and sales  
31 and use tax system, do not reflect these temporary, short-term  
32 pricing situations. Instead they intrinsically, but incorrectly,  
33 assume that these short-term higher prices reflect true long-term  
34 market value of the vehicles.

35     (f) Alternative fuel vehicles provide benefits to California  
36 citizens that are external to, or not reflected in, their cost to the  
37 purchaser. These benefits include: increasing our national  
38 independence from foreign energy sources; providing more

1 transportation choices for consumers and businesses, thus  
2 reducing our economic vulnerability to sudden fuel price increases  
3 caused by external or internal events; reducing air pollution from  
4 mobile sources; reducing future pressures for additional  
5 environmental controls on existing and new businesses and  
6 industries in California; and creating new advanced transportation  
7 technology jobs and industries in California.

8 (g) It is the public policy of the State of California, the federal  
9 government, and many local governments, to encourage the  
10 development and use of alternative fuel vehicles, for the purpose  
11 of providing the benefits described above to all California citizens.

12 (h) Existing vehicle license fee structures, and the existing  
13 sales and use tax system, as they relate to the determination of  
14 market value of alternative fuel vehicles do not reflect the critical  
15 short-term pricing issues described above, nor the external  
16 benefits that accrue to all California citizens. Additionally, these  
17 existing fees and taxes act as a significant disincentive to potential  
18 purchasers of alternative fuel vehicles, and as such, are contrary to  
19 existing public policies at all levels of government.

20 (i) It is the intent of the Legislature to equalize the vehicle  
21 license fee, and state and local sales and use taxes, between  
22 alternative fuel vehicles and conventional fuel vehicles for a  
23 period of four years, beginning January 1, 1999, and ending  
24 December 31, 2008. During this time period it is the intent of the  
25 Legislature that the incremental or differential cost between an  
26 alternative fuel vehicle and a comparable conventional fuel  
27 vehicle, as determined by the State Energy Resources  
28 Conservation and Development Commission, should be exempt  
29 from both the vehicle license fee, and state and local sales and use  
30 taxes.

31 (j) To ensure that the alternative fuel vehicles subject to these  
32 provisions provide significant reduction in air pollution, eligible  
33 vehicles must meet, at a minimum, the standard for  
34 ultra-low-emission vehicles as determined by the State Air  
35 Resources Board.

36 SEC. 2. Section 10759.5 of the Revenue and Taxation Code  
37 is amended to read:

38 10759.5. (a) For purposes of determining the vehicle license  
39 fee imposed by this part, there are exempted from the  
40 determination of market value, the incremental costs of new

1 light-duty motor vehicles propelled by alternative fuels, and  
2 certified by the State Air Resources Board as producing emissions  
3 that meet the emission standard for ultra-low-emission vehicles or  
4 lower as defined by the board. This exemption shall apply to the  
5 subsequent payments of the vehicle license fee.

6 (b) For purposes of this section, "incremental cost" means the  
7 amount determined by the State Energy Resources Conservation  
8 and Development Commission as the reasonable difference  
9 between the cost of the motor vehicle defined in subdivision (a)  
10 and the cost of a comparable gasoline or diesel fuel vehicle. This  
11 determination shall constitute the maximum incremental cost for  
12 purposes of the exemption in subdivision (a), and may be reduced  
13 by the actual sales price of the vehicle. The actual incremental cost  
14 shall be stated in the contract for sale or lease with the purchaser,  
15 and shall be reported to the commission quarterly.

16 (c) This section shall become operative on January 1, 1999, and  
17 shall remain in effect only until January 1, 2003-2009, and as of  
18 that date is repealed.

19 SEC. 3. This act provides for a tax levy within the meaning of  
20 Article IV of the Constitution and shall go into immediate effect.