ANALYSIS BY THE LEGISLATIVE ANALYST

Proposition 10

Bonds. Alternative Fuel Vehicles and Renewable Energy. Statute.

Background

State Energy and Air Quality Programs. The state administers a number of programs to promote renewable energy (such as solar and wind power), alternative clean fuels (such as natural gas), energy efficiency, and air quality improvements. Some programs provide financial incentives, such as grants, loans, loan guarantees, rebates, and tax credits. Funding for these programs has primarily come from fee revenues, although general obligation (GO) bonds more recently have been a funding source for air quality-related incentive programs.

State and Local Taxes and Local Vehicle License Fee (VLF) Revenues. State and local governments levy a number of taxes, including the sales and use tax (SUT). The SUT is levied on the final purchase price of tangible personal items, with a number of specified exemptions. The SUT has two rate components: one state and one local. The state SUT rate is currently 6.25 percent, of which 1 percent is distributed to local governments. The local SUT rate currently varies between 1 percent and 2.5 percent, depending on the local jurisdiction in which the tax is levied. Thus, the overall rate in California varies from 7.25 percent to 8.75 percent. In addition, the state collects an annual VLF on motor vehicles. Most of these VLF revenues are distributed to cities and counties. Currently, the VLF rate is equal to 0.65 percent of a motor vehicle's depreciated purchase price.

Proposal

Authority to Sell GO Bonds. This measure allows the state to sell $5 billion in GO bonds for various renewable energy, alternative fuel, energy efficiency, and air emissions reduction purposes. Figure 1 summarizes the definitions of key terms used in the measure.

Figure 1

Key Terms as Defined in Proposition 10

Clean Alternative Fuel. Natural gas or any fuel that achieves at least a 10-percent reduction in carbon emissions when compared to conventional petroleum-based fuels.

Clean Alternative Fuel Vehicle. Generally, a vehicle powered by a clean alternative fuel.

Dedicated Clean Alternative Fuel Vehicle. A vehicle powered exclusively by specified clean alternative fuels—biomethane, electricity, hydrogen, natural gas, propane, or any combination thereof.

High Fuel Economy Vehicle. A light-duty on-road vehicle (weighing less than 8,500 pounds[a]) that can achieve a fuel economy of 45 miles per gallon for highway use.

Very High Fuel Economy Vehicle. A light-duty on-road vehicle (weighing less than 8,500 pounds[a]) that can achieve a fuel economy of 60 miles per gallon for highway use.

[a] Currently, the average light-duty passenger vehicle weighs less than 4,500 pounds.

For more information regarding GO bonds, please refer to the section of this ballot pamphlet entitled "An Overview of State Bond Debt."

Figure 2 summarizes the available uses of the bond money, which primarily would (1) provide $3.4 billion for financial incentives to reduce the cost to purchase or lease high fuel economy vehicles and dedicated clean alternative fuel vehicles (primarily rebates for trucks and other medium- and heavy-duty vehicles), and (2) $1.6 billion to fund research, design, development, and deployment of renewable electricity generating technology. The measure allocates the bond funds among four accounts, as shown in Figure 2.

Figure 2

Proposition 10
Uses of Bond Funds

		Amounts (In Millions)
Clean Alternative Fuels Account		**$3,425**
Rebates—Ranging from $2,000 to $50,000 per rebate.	$2,875	
• High Fuel Economy Vehicles.	*($110)*	
• Very High Fuel Economy Vehicles.	*(230)*	
• Dedicated Clean Alternative Fuel Vehicles:		
—Light-duty vehicles weighing less than 8,500 pounds.[a]	*(550)*	
— Light-medium-duty vehicles weighing between 8,500 and 13,999 pounds.	*(310)*	
—Heavy-medium-duty vehicles weighing between 14,000 and 24,999 pounds.	*(650)*	
—Heavy-duty vehicles weighing 25,000 pounds or more.	*(1,000)*	
• Home refueling station rebates ($2,000 per rebate).	*(25)*	
Financial incentives—Research, development, and demonstration of alternative-fuel and high-efficiency vehicles, and alternative fuels.[b]	$550	
Solar, Wind, and Renewable Energy Account		**$1,250**
Financial incentives—Research, design, development, construction, and production of electric generation technology that reduces generation cost and greenhouse gas emissions.[b,c]	$1,000	
Financial incentives—Equipment to produce electricity from renewable resources.[b]	250	
Demonstration Projects and Public Education Account		**$200**
Grants to local governments—Construction and operation of alternative and renewable energy demonstration projects.	$200	
Education, Training, and Outreach Account		**$125**
Grants to public universities and colleges—Staff development, training, research, and tuition assistance for alternative fuel and clean energy technology commercialization (making the new technology ready for sale in the commercial market) and workforce development. At least $25 million for outreach and public education.	$125	
Total		**$5,000**

[a] Currently, the average light-duty passenger vehicle weighs less than 4,500 pounds.

[b] Financial incentives could include low-interest loans, loan guarantees, and grants.

[c] At least 80 percent of the funds ($800 million) must support financial incentives for solar technology.

State Agency Administration of Bond Funds. The measure designates various state agencies to administer different components of the measure. Specifically, the State Board of Equalization (BOE) would administer the alternative-fuel vehicle rebates, the Air Resources Board would administer the incentives for alternative-fuel research and development, and the California Energy Resources Conservation and Development Commission would administer the renewable energy incentives and the monies available for grants to local governments and public higher education institutions. Regarding BOE's administration of the rebates, the measure provides that BOE shall calculate the SUT applicable to the sale or lease of a vehicle at the pre-rebate purchase or lease price.

The measure requires each state administering agency to adopt program milestones, provide for annual independent audits, issue annual progress reports, and establish procedures for oversight of the awarding of incentives. The measure also requires that the monies allocated to each bond account be spent within ten years, with reasonable efforts to be made to spend the monies for alternative-fuel vehicle rebates within five years.

Finally, the measure specifies that not more than 1 percent of the funds in each account established by the measure may be used to pay for program administration.

Fiscal Effect

Bond Costs. The cost of these bonds would depend on interest rates in effect at the time they are sold and the time period over which they are repaid. The state would likely make principal and interest payments from the state's General Fund over a period of 30 years. If the bonds were sold at an average interest rate of about 5 percent, the cost would be about $10 billion to pay off both the principal ($5 billion) and interest ($5 billion). The average payment would be about $335 million per year.

Impact on State Sales Tax Revenues. The measure provides $2.9 billion for a variety of vehicle-related rebates. The rebates are designed to encourage the purchase or lease of vehicles that, presumably, are more expensive than the vehicles that consumers (individuals and businesses) would purchase or lease in the absence of the rebates. To the extent the rebates result in individuals and/or businesses purchasing or leasing vehicles that are more expensive than those that they would otherwise purchase or lease, state sales tax revenues would increase. In addition, consistent with the experience with other vehicle rebate programs in California, retailers may adjust the sales price upwards to account for the individuals and/or businesses being eligible for a rebate. Such an increase in the sales prices of these products would result in an increase in state sales tax revenues. Finally, rebates will result in lower out-of-pocket expenses for some individuals and/or businesses purchasing or leasing vehicles. If these individuals and/or businesses spend any of these savings on other taxable purchases, this will result in increased SUT revenues.

While the exact amount of increased sales tax revenue that would result from the measure would depend on the quantity and actual selling price of vehicles purchased or leased and other behavioral effects in response to the rebates, we estimate that the amount is potentially in the tens of millions of dollars from 2009 to about 2019.

Impact on Local Revenues. The bond-funded incentive programs under the measure would result in the following two effects on local revenues:

- ***Increased Local Sales Tax Revenues.*** As with the measure's impact on state sales tax revenues discussed above, depending on the quantity and actual selling price of vehicles purchased or leased in response to the rebates, the measure would result in increased sales tax revenues to local governments, potentially in the low tens of millions of dollars from 2009 to about 2019.
- ***Increased Local VLF Revenues.*** As stated above, the measure could result in individuals and/or businesses purchasing or leasing vehicles that are more expensive than those they would otherwise purchase or lease. To the extent that the measure results in the purchase or lease of more expensive vehicles than would otherwise be purchased or leased, it would lead to increased local VLF revenues. While the exact amount of any such VLF revenue increase would depend upon the quantity and actual selling price of any vehicles purchased or leased as a result of the rebates offered by the measure, we estimate the increase in VLF revenues to be potentially in the millions of dollars from 2009 to about 2019.

State Administrative Costs to Implement the Measure. The measure's 1-percent limit on administrative costs may leave the various state departments with insufficient funds to implement the programs consistent with the provisions of the proposition. To the extent the measure fails to provide adequate funding for its administration, other state funds may face pressure, potentially averaging up to about $10 million annually, to fund implementation of the measure through about 2018-19.