

**REVENUE:** Revenue statement issued

**FISCAL:** Fiscal statement issued

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**Action:** Do pass with amendments to the B engrossed bill, be printed engrossed and referred to Committee on Ways and Means by prior referral

**Vote:** 4-0-1

**Yeas:** G. George, Monroe, Starr, Deckert

**Nays:**

**Exc.:** Burdick

**Prepared By:** Chris Allanach, Economist

**Meeting Dates:** 6/11, 6/21

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**WHAT THE BILL DOES:** Directs Environmental Quality Commission (EQC) to establish a goal to reduce the risk of cancer from diesel engine emissions to no more than one case per million by 2017 and to substantially reduce risks to school children by 2013. Beginning with the 2007-2008 school year, provides that funds received by school districts to repower, retrofit or replace school bus diesel engines will not be deducted from State School Fund transportation grants. Directs EQC to establish standards for qualifying repower or retrofit diesel engines, including a 25 percent reduction in diesel emissions. Establishes Clean Diesel Engine Fund—a permanent Department of Environmental Quality (DEQ) appropriation to provide grants and loans to assist owners to repower or retrofit diesel engines, to scrap older diesel engines, and to fund administration of the clean diesel program. Dedicates 75 percent of funds available until June 30, 2010, to repower or retrofit vehicles that will be used in Oregon for 75 percent of their total miles (or 75% of total hours) in the three years following the retrofit or repower. Allows money from the Clean Diesel Engine Fund to award grants and loans for up to 25% of the certified costs of qualifying repowers. Authorizes DEQ to certify and contract with third parties to repower and retrofit diesel trucks. Establishes \$50 application fee for DEQ tax credit certification, plus an additional application processing fee to be set at a rate determined by EQC rule. Requires replaced engines to be scrapped and the repowered engine to have a useful life of at least seven years. Requires a second repower or retrofit to further reduce emissions to be considered “qualifying”. Requires the DEQ to conduct audits to ensure engines continue to meet certification requirements. Allows a personal income or corporate income or excise tax credit of up to 25% of the certified cost for qualifying repower or 50% of certified cost of qualifying retrofit. Adjusts the qualifying costs by any existing financial incentive when determining the amount of the credit. Limits the credit to the taxpayer's liability. Allows DOR to deny credit if the engine no longer meets the stated requirements. Disallows the credit in conjunction with the pollution control credit, but allows the credit in conjunction with the business energy tax credit (BETC). Limits total annual repower/retrofit credits to \$3 million and sunsets the credit certifications on December 31, 2017. Applies to tax years beginning on or after January 1, 2008. Allows a 3-year carry-forward and a transfer of the credit to another taxpayer. Extends existing tax credit for new low emission truck engines for engine model years through 2011. Limits total amount of credits for purchase of diesel engines to \$500,000 per year.

**ISSUES DISCUSSED:**

- Impacts on emissions, older diesel engines, public health, school busses
- Scrapped engines
- As per Committee rules, the following metric was adopted for evaluating the credit:
  - Quantity (tons/year) of diesel particulate emissions

**EFFECT OF COMMITTEE AMENDMENTS:** Clarifies that the Department of Environmental Quality is responsible for tracking the tax credit certifications so that they do not exceed the maximum of \$3 million per year.

**BACKGROUND:** The 2003 Legislature (with HB 2041) created a credit against personal or corporate income/excise taxes of \$400 to \$925 per engine for purchases of qualifying diesel truck engines. (The credit is larger for taxpayers who own fewer trucks prior to the purchase.) Taxpayers apply to the Oregon Department of Environmental Quality (DEQ) for credit certification. To be eligible for the credit, the taxpayer must own the truck and purchase the qualifying engine in Oregon between 2004 and 2007. The truck must have a combined weight of more than 26,000 pounds and be registered in Oregon. The diesel engine must be certified by the federal EPA as emitting oxides of nitrogen at the rate of 2.5 grams per brake horsepower-hour or less and be of a model year between 2003 and 2007. The credit is

nonrefundable but may be carried forward for up to four years. DEQ may issue credits up to \$80,000 to a single taxpayer and \$3 million to all taxpayers in any one calendar year.

In tax year 2005, roughly 70 personal income taxpayers claimed a total of \$110,000 in credits for the purchase of a qualifying diesel truck engine. Collectively, they were able to reduce their 2005 liability roughly \$85,000. The average liability reduction per taxpayer was roughly \$1,200. The total projected revenue impact is \$300,000 for the 2005-07 and 2007-09 biennia (2007-09 Tax Expenditure Report).