Transportation Projects

ORS 315.336	Year Enacted:	2011	Transferable:	Yes
	Length:	5-years	Means Tested:	No
	Refundable:	No	Carryforward:	5-years
TER 1.440	Kind of cap:	Program	Inflation Adjusted:	No

Policy Purpose

Statute does not specifically identify a policy purpose for this incentive. The original tax credit on which this one was based encompassed a broad policy regarding energy conservation, including transportation. In 2015, testimony by the ODOE to the House Committee on Energy and the Environment states that the purpose of this credit is "...to promote cleaner transportation fuels and diversify the fuel market..."

As described by the ODOE in 2015 testimony, a timeline for achieving this purpose may align with the Energy Action Plan adopted by the Northwest Power and Conservation Council. One of the goals outlined in the plan is to convert 20 percent of large fleets to alternative fuels. This tax credit is intended to fund projects that help the state reach this goal.

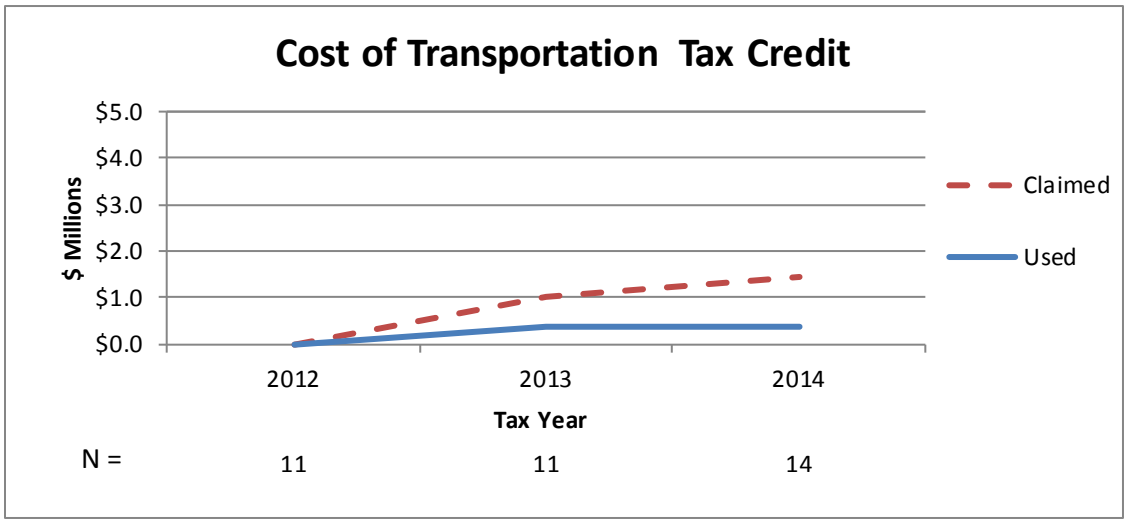
Description and Revenue Impact

Taxpayers who invest in a transportation project are allowed to claim a tax credit equal to 35 percent of the project cost. The project must be certified by the Department of Energy. The credit

is taken over five years: 10 percent in the first and second years and 5 percent each year thereafter. An eligible transportation project is either an alternative fuel vehicle infrastructure project (i.e. a fueling station for alternative fuels) or the purchase of eligible fleet vehicles. The credit has a five-year carryforward and may be transferred. There is a program cap of $20 million in tax credits that may be issued per biennium. For a review of tax credit transfers, refer to Section IV Tax Credit Transferability.

For tax years 2013 through 2016, $3 million of the program cap was dedicated to a tax credit auction. Taxpayers were able to purchase tax credits and the proceeds were deposited into the Alternative Fuel Vehicle Revolving Fund. ODOE administers the fund, which is used as capital for a loan program for public entities, tribes, and eligible private entities to help them acquire an alternative fuel vehicle fleet. Eligible private entities are those that operate a fleet of motor vehicles in an area of the state in which the Department of Environmental Quality has testing stations for automobile emissions - currently Portland and Medford-Ashford. Tax credits purchased at auction have a three-year carryforward. A maximum of $1.5 million in tax credits are auctioned each year by the Department of Revenue. The credits are sold in $500 increments with a minimum bid of $475 (95 percent of the value of the tax credit).

The graph below shows the tax credits claimed and used as reported on personal and corporation tax returns between 2012 and 2014.[7] Over these three years, the amount claimed grew from effectively zero to $1.4 million. The usage rate, however, declined each year from about 65 percent to 25 percent, so the annual revenue cost remained roughly $0.4 million.



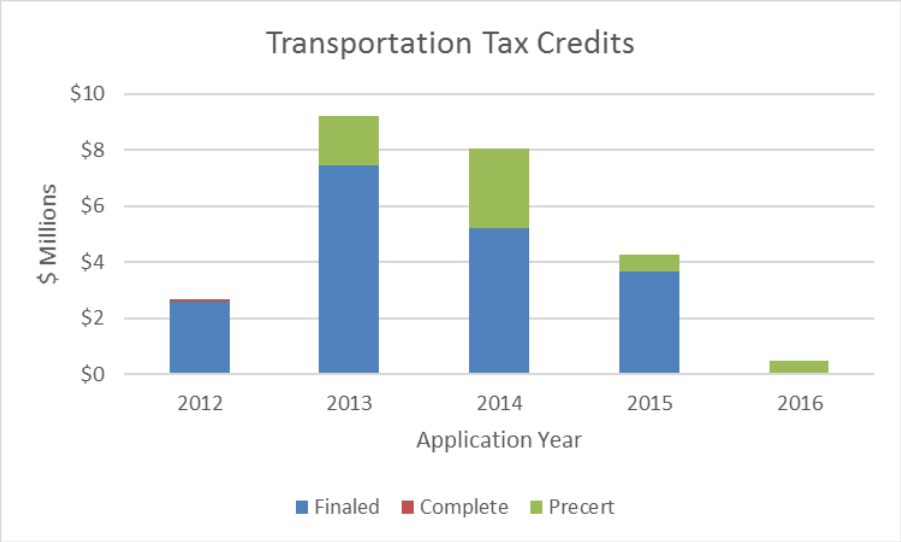
Policy Analysis

Oregon repealed the tax credit for hybrid vehicles in 2009 and for remaining alternative fuel vehicles in 2011. Since then, the focus has been on the fueling infrastructure for alternative fuels and related fleet vehicles. The infrastructure is a necessary complement to the market for these vehicles. Expanding the tax credit to include fleet vehicles is another way of helping to establish the mature market for alternative fuel vehicles.

[7] Due to some reporting concerns, these data have been calibrated using certification data.

A key piece of Oregon transportation infrastructure is the ability of vehicle owners to refuel easily. Proponents argue that one of the limitations on the demand for alternative fuel vehicles is the lack of convenience of refueling as well as the limitation this imposes on driving range. This credit is intended to address this key market barrier. The CRS (2014) notes that adjusting the price of conventional fuels directly so they incorporate all costs is likely a more efficient approach to stimulating the investment and development of alternative fuel vehicles and infrastructure. As a second best option, tax incentives, such as this credit, may help promote investment in this market.

The graph below shows the transportation tax credits awarded since this program took effect. In total, $18.9 million tax credits have been granted a final certification. The blue bars show the amount and application year for projects that have received a final certification. The red bar indicates projects that have been completed but are waiting for their final certification. (There is a small red bar in 2012 for five projects worth roughly $75,000 in credits; final certification wasn't requested until 2016.) The green bars are projects that have received pre-certification and are considered under construction, installation, etc.



The following table provides more detailed information on the transportation projects that have received a final certification. During the first (nearly) five years of the program, a total of 47 projects have been completed. Total certified project costs were $93.1 million and $18.9 million in tax credits has been awarded. The number of projects are split evenly between infrastructure and transit. The total amount of tax credits is very different. Transit accounts for $15.8 million in credits while refueling stations account for $3.1 million.

Transportation Tax Credit Certifications

Type of Tax Credit	Number	Project Costs ($)	Tax Credits ($)	Gallons Saved	MMBtu
5-year tax credits					
Alternate Fuel Vehicle Infrastructure	23	$8,839,897	$3,093,966	4,398,202	573,965
Fleets	1	$176,310	$61,708	28,600	3,732
Transit	23	$84,110,908	$15,780,903	16,374,308	2,136,847
Total	47	$93,127,115	$18,936,577	20,801,110	2,714,545

A useful analysis for program evaluation involves estimating the impact these projects have had on changing fuel consumption. Using some rudimentary estimates of the gallons displaced as a function of project size, these projects have moved the consumption of nearly 21 million gallons of either gasoline or diesel to an alternative fuel. Depending on the ability to collect, organize, refine, and maintain quality data, the potential exists for more sophisticated analysis to be done that may help identify strengths and weaknesses of the approved projects. Ideally, such analysis would then be used for subsequent program improvements.

As described above, $3 million of the $20 million program cap was dedicated to the auction of tax credits; the proceeds capitalized a fund for use in encouraging the purchase of alternative fuel fleet vehicles. The following table shows the auction results for these tax credits. Between 2013 and 2015, a total of $3 million in tax credits was auctioned, with roughly that same amount going into the Alternative Fuel Revolving Fund (AFRF). As of 2016, ODOE has not issued any loans.

AFRF Tax Credit Auctions

				Bid Amount	
Year	Number of Increments	Number of Tax Credits	Credit Amount ($M)	Total ($M)	Share of Credit
2013	1,935	68	$1.0	$1.0	99%
2014	3,921	96	$2.0	$1.9	99%
2015	144	4	$0.1	$0.1	102%
Total	6,000	168	$3.0	$3.0	99%

The following table shows the distribution of these tax credit claimants by income level. These data are for full-year filers in tax year 2014. As expected, usage is focused toward higher income filers. Filers with at least $200,000 of income represented 52 percent of the claimants and 91 percent of the amount claimed. The overall average credit claimed was just over $11,300; the average credit for filers with at least $500,000 of income was roughly $37,400.

Tax Credits Claimed

(Tax Year 2014)

Income $000	Number of Claimants	Amount ($)	Average ($)
< 25	16	$10,767	$673
25 - 50	18	$62,589	$3,477
50 - 100	25	$33,552	$1,342
100 - 200	24	$78,101	$3,254
200 - 500	60	$628,812	$10,480
> 500	31	$1,160,008	$37,420
Total	174	$1,973,829	$11,344

Other Issues

Administration costs are almost entirely incurred by the ODOE as program administrators. Program participants are required to pay fees when submitting their pre-certification application, technical review, final application, and amendments. The DOR likely incurs an incremental expense as they administer both the individual and corporation tax systems. This credit is one of several that they track to ensure tax compliance.

Several states offer an incentive for fueling devices. Some are residential only. In some cases, the tax credit is for converting existing property while in other states the tax credit is for the purchase and installation of new devices.

Key Characteristics of Tax Credits Offered by Other States

- A fixed percentage
- A taxpayer annual cap

In Summary:

Advantages	• Targeted to key infrastructure
Disadvantages	• Credit structure appears to focus on large projects
Potential Modifications	• Change transferability to refundability • Enable option for a one-year tax credit

Other Recommendations:

JCDEO*	• Allow to sunset
Governor	• Extend sunset

*Joint Committee on the Department of Energy Oversight

Appendix C: Policy Questions

When reviewing the tax credit sunset extension bills and proposed new credits, the Joint Committee on Tax Credits intends to address the follow questions:

- What is the public policy purpose of this credit? Is there an expected timeline for achieving this goal?

- Who (groups of individuals, types of organizations or businesses) directly benefits from this credit? Does this credit target a specific group? If so, is it effectively reaching this group?

- What is expected to happen if this credit fully sunsets? Could adequate results be achieved with a scaled down version of the credit? What would be the effect of reducing the credit by 50%?

- What background information on the effectiveness of this type of credit is available from other states?

- Is use of a tax credit an effective and efficient way to achieve this policy goal? What are the administrative and compliance costs associated with this credit? Would a direct appropriation achieve the goal of this credit more efficiently?

- What other incentives (including state or local subsides, federal tax expenditures or subsidies) are available that attempt to achieve a similar policy goal?

- Could this credit be modified to make it more effective and/or efficient? If so, how?