Task Force on Supporting Businesses in Reducing Diesel Emissions

Draft Task Force Recommendations
03 December 2020

Legislative Mandate HB 2007

The task force shall:

Consider public funding strategies for supporting businesses in reducing emissions from diesel engines used in the course of conducting business activities. **Evaluate and develop recommendations related to funding strategies** that shall include, but need not be limited to:

- Taxes;
- Fees;
- Contract requirements or funding set-asides; and Strategies employed by other states to accrue funds for diesel emissions reduction
- programs.

PROGRAMMATIC RECOMMENDATIONS

Geographic Preference

While funding should be available to any eligible business or organizations in the state, the program should prioritize those that are located in the parts of the state where **concentrations of diesel particulate matter are the highest** and those businesses **subject to regulation** under HB 2007.

Small Businesses

Businesses with **50 or fewer employees** should receive a preference under the program.

Equipment Type

Pre-2010 On-Road medium and heavy-duty trucks, and **Pre-Tier 4 non-road** diesel equipment (>25 hp) should receive a preference under the program.

Technology Type

The program should **allow businesses to determine** which types of technology are most suitable for their business needs, including retrofits, repowers, replacement. Replacement or repower for alternative fuel types should also be allowed. Retrofits are unlikely to be preferred by most businesses.

Replacement Type

The program should allow for the replacement of older equipment with **newer used equipment** that is on-road model year 2010 and newer or non-road tier-4.

Subsidy Level

Subsidies should be set to incentivize the transition to cleaner equipment with allocations roughly in line with current subsidy levels for the DERA program (**25% of replacement cost, 50% of repower cost, 100% of retrofit cost**).

Does the Task Force want variable (i.e. higher) replacement subsidies for projects that transition to alternative fuels?

Scrappage

When receiving an incentive to replace an older piece of equipment, the old equipment should be s**crapped or otherwise rendered inoperable** as a condition of the subsidy.

REVENUE RECOMMENDATIONS

Scope & Scale

Designing a program to retrofit or replace all diesel equipment is likely beyond any feasible revenue source.

6,828 pieces of tier 0, 1, and 2 construction equipment

✖

$15,000 retrofit

=

$102,420,000

Tire Sale Privilege Tax

Can be structured as a flat-fee applied to the sale of any tire type, or could target specific types of tires, and/or be scaled as a percentage cost of the tire, tire use, maximum load capacity, etc.

The annual average revenue from a surcharge of a $1 per tire is about $3.1 million growing by the rate of population growth of 1.2% per year.

To determine the annual revenue the Task Force would need to agree on a proposed approach to taxation.

If all the revenue generated from the tire surcharge is used for debt service, then:
A 10-year bond could yield $24 million; a 15 years bond could yield $32 million; a 20-year bond could $38 million.

Red-Dye-Diesel Fuel Tax

Red-Dye-Diesel is diesel fuel used for non-road uses and is currently not taxed.

The revenue amounts per $0.01 would be about $1.7 million annually. If the tax is set at $0.10 cents, then revenue would be about $17 million annually.

Possible considerations exempting agriculture and logging equipment. Agriculture and logging constitute about 30% of the non-Road diesel. Thus, if a tax of 40 cents a gallon (equivalent to gasoline tax) is levied with the exemption of AG & Logging, then the revenue is likely to reach $47 million each year. If no exemptions are considered, the revenue would be $67 million annually.

Other Considerations

- Recommend that VW funding be used to
- Bond against the revenue source to increase the impact early on.
- Include a sunset provision on the source of revenue.
- Consider exempting agriculture and logging equipment from red-dye tax. Agriculture and logging constitute about 30% of the non-Road diesel. Thus, if a tax of 40 cents a gallon (equivalent to gasoline tax) is levied with the exemption of AG & Logging, then the revenue is likely to reach $47 million each year. If no exemptions are considered, the revenue would be $67 million annually.