

Testimony to the House Committee on Transportation

Daniel Dutcher, Senior Environmental Policy Manager
Vermont Agency of Transportation
daniel.dutcher@vermont.gov
802-498-4540

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Statewide Vehicle Incentive Programs

A. Overview

The 2019 Transportation Bill (Act 59, § 34), as amended by the 2020 Transportation Bill (Act 121, § 14) established three statewide vehicle incentive programs:

- 1) a new plug-in electric vehicle (PEV) incentive program,
- 2) a used fuel-efficient vehicle incentive program (MileageSmart), and
- 3) an emissions-repair incentive program.

As required by the 2019 and 2020 Transportation Bills, VTrans has filed a report evaluating the effectiveness of these programs. The following represents a summary of that report.

B. Program Funding

The 2019 Transportation Bill made only \$150,000 of funding available to administer all three programs. VTrans learned early on that this would not be sufficient to retain contractors at market rates. To make the most of the funding available, VTrans decided to allocate the entire \$150,000 to the used fuel-efficient vehicle program (MileageSmart) and the emissions-repair program and to use other means to run the New PEV Incentive Program.

C. New PEV Incentive Program

VTrans launched the New PEV Incentive Program in December 2019 and entered agreements with Drive Electric Vermont (through VEIC) and the State's electric distribution utilities to help administer the Program. For about the first year of the Program, VTrans paid for Drive Electric Vermont's administrative services through a \$50,000 grant agreement that VTrans financed with air-quality settlement money transferred from ANR to VTrans. In addition, VTrans financed approximately \$13,000 of administrative support from Drive Electric Vermont in the Program's first year through an annual PSD-VEIC grant agreement funded by an interagency MOA. VTrans executed no-cost contracts with Vermont's electric distribution utilities to issue incentives to Program applicants.

The initial program incentive funding of \$1,100,000 authorized by the 2019 Transportation Bill was fully drawn down by October 1, 2020. VTrans suspended the Program at that time and

negotiated amended agreements with Drive Electric Vermont and the distribution utilities to continue to administer the Program with \$1,000,000 of additional funding made available through the 2020 Transportation Bill and Appropriations Bill (Act 154). The Appropriations Bill did not take effect until October 2, 2020.

VTrans was able to relaunch the Program on November 5, 2020. VTrans allocated up to \$50,000 of the new Program funding to an amended grant agreement with VEIC for continued administrative support from Drive Electric Vermont. VTrans also executed amended no-cost contracts with the utilities. About \$579,000 of funding currently remains available for incentives under the New PEV Incentive Program.

As the Committee knows, the transportation sector generates more GHG emissions than any other sector of the economy, both in Vermont and nationwide. Transportation accounts for close to half of Vermont's GHG emissions. While numerous strategies, including TDM, are important for addressing transportation GHG emissions, the quickest, most cost effective, and most comprehensive means of mitigating these emissions is by electrifying the entire transportation system. Motor vehicles will eventually electrify, but a robust policy framework is necessary to help ensure that the fleet electrifies quickly enough to meet the State's GHG mitigation requirements and that Vermonters benefit fully from the renewable energy economy.

Currently about 4,000 PEVs are registered in Vermont, and over 7% of new passenger car registrations are now electric. However, PEVs still represent less than 1% of the entire vehicle fleet in Vermont. The New PEV Incentive Program is an important means of continuing to increase PEV market share.

As of early December, Vermont's New PEV Incentive Program awarded about \$1,240,000 of incentives. This represents about 394 incentive payments. Thus, the Program has been very popular despite the economic disruptions associated with the global pandemic.

The Program has offered higher incentives for low-income Vermonters and for BEVs (versus PHEVs) since its inception. By the end of last year, low-income PEV incentives comprised about 48% of the total quantity of incentives and 64% of incentive spending. Per capita incentives varied by county, with Washington County receiving the most incentive funding and Essex County receiving the least. UVM's Transportation Research Center is seeking funding (from sources other than the State) to conduct survey research that may inform Program changes to better address equity and environmental justice considerations and to improve overall Program effectiveness.

Overall, the Program seems to be working as intended to increase PEV adoption in the State. The Program has succeeded due to the efforts of the electric utilities, who are processing the incentives and reimbursing dealers and consumers, Drive Electric Vermont's continuing work on program administration, and the Vermont Vehicle and Automotive Distributors Association's efforts to organize participating dealers.

New PEV Incentive Program Elements

Available to Vermont residents.

Available for new PEVs with a base MSRP of \$40,000 or less. (Trimlines that bring the total sale price over \$40,000 are eligible.)

Applies to purchases or leases of new vehicles.

Lease terms must be at least 24 months.

Two ways to receive the incentive:

- 1) Auto dealership point-of-sale or -lease. Consumer applies to the dealer. Dealer applies the appropriate incentive to the down payment. Dealer then submits the paperwork to the DU where the consumer lives. The DU reimburse the dealer. The State then reimburses the DU.
- 2) Consumer direct incentives. Consumer submits proof of purchase or lease to their DU with a copy to DEV. The DU reimburses the consumer, and the State then reimburses the DU.

Pre-approval by DEV required for all consumer direct incentives. Pre-approval required for dealer point-of-sale or -lease incentives once the incentive funds available fall below \$200,000 to ensure available funds are not overdrawn.

Income Eligibility Before July 1, 2020

| | <u>Household income no more than 160% of MHI*</u> | <u>Qualify for the State's weatherization program</u> |
|------|---|---|
| PHEV | \$1,500 | \$4,000 |
| BEV | \$2,500 | \$5,000 |

*160% of median household income was about \$96,000 per year. Incentives limited to one per household.

Income Eligibility Since July 1, 2020*

| Tax Filing Status | Adjusted Gross Income (AGI) Limits | State Incentive Amount | |
|--|------------------------------------|---------------------------------|----------------------|
| | | Plug-in Hybrid Electric Vehicle | All-Electric Vehicle |
| Individual filing as single or head of household | \$50,000 or less | \$3,000 | \$4,000 |
| | Over \$50,000 up to \$100,000 | \$1,500 | \$2,500 |
| Individual filing as qualifying widower | \$50,000 or less | \$3,000 | \$4,000 |
| | Over \$50,000 up to \$125,000 | \$1,500 | \$2,500 |
| Married filing jointly | \$50,000 or less | \$3,000 | \$4,000 |
| | Over \$50,000 up to \$125,000 | \$1,500 | \$2,500 |
| Married filing separately | \$50,000 or less | \$3,000 | \$4,000 |
| | Over \$50,000 up to \$100,000 | \$1,500 | \$2,500 |

*Incentives limited to one per individual or married couple filing jointly.

D. Used Fuel-Efficient Vehicle Incentive Program (MileageSmart) and Emissions-Repair Program

In November 2019, VTrans entered a grant agreement with Capstone Community Action to run the used fuel-efficient vehicle and emissions-repair incentive programs. After being sidetracked by its work to address the global pandemic’s economic impacts, Capstone stood up a used fuel-efficient vehicle incentive program, which it calls MileageSmart, and began paying incentives in

September 2020. Capstone determined that it was not able to launch an emissions-repair program due to insufficient program resources.

Capstone invested about \$10,000 in designing an emissions-repair program before abandoning that effort. By December 2020 Capstone had exhausted the remainder of the \$150,000 that VTrans granted to Capstone to run both MileageSmart and the emissions-repair program. Since that time, Capstone has continued to run MileageSmart at its own administrative cost. Of the \$750,000 of incentive funding the Legislature made available for both MileageSmart and the emissions-repair program, about \$680,000 of incentive funding remains unspent.

The 2020 Transportation Bill authorized VTrans to allocate up to \$50,000 of additional administrative funding to Capstone to run both the used fuel-efficient vehicle and emissions-repair incentive programs. This additional administrative funding was not available until the enactment of the Appropriations Bill (Act 154) on October 2, 2020. VTrans did not seek to enter into a second amended grant agreement with Capstone after the Appropriations Bill passed because the Legislature was clear that these additional \$50,000 of administrative funds were to be used for both MileageSmart and the emissions-repair program, and Capstone was firm that it would not be able to stand up and operationalize an emissions-repair program, even with these additional funds.

While MileageSmart incentives are not limited to PEVs, over half the incentives Capstone has paid have supported PEVs, and most or all the rest have been conventional hybrids. So far about \$69,000 in incentive funding of the \$750,000 of incentive funds made available for the Capstone programs has been distributed. The average incentive has been \$3,700 per car, so about 185 incentives remain. With uptake of between 10-15 incentives per month, it is estimated that this funding would remain available for 12-18 months. The \$50,000 the Legislature authorized for the MileageSmart and emissions-repair program could be made available to Capstone to continue running MileageSmart through the budget adjustment process. MileageSmart is helping people in need get into reliable transportation and is also helping bring the benefits of electric motoring to low-income Vermonters.

Although Capstone was not able to stand up the emissions-repair incentive program, an emissions-repair program in Vermont run by a private administrator with adequate technical resources and knowledge of emissions repair programs could be a viable and cost-effective path forward. An emissions-repair program would assist people who need emissions repairs to a vehicle that passes the safety inspection but who cannot afford to purchase a vehicle, even with other incentive funds available. Repairing a vehicle that has significant remaining useful life can make better financial sense than purchasing a vehicle. An emissions repair program would also advance the State's goals of protecting air quality by ensuring that vehicles are able to operate as designed to reduce emissions and protect the public health. DEC, which runs the State's mobile-source emissions air-quality program, would be the appropriate agency to oversee an emissions repair program if provided with adequate resources.

MileageSmart Program Elements

The used fuel-efficient vehicle incentive program must limit purchase incentive payments to used pleasure cars with EPA fuel efficiency ratings of at least 40 miles per gallon when these vehicles were new. Point-of-sale incentives must be provided through the State's network of community action agencies and must be limited to applicants with incomes that would qualify them for services through the State's Weatherization Program. The 2019 and 2020 Transportation Bills establish a maximum incentive of \$5,000 under this program.

Emissions-Repair Program Elements

The emissions-repair program applies to vehicles that failed emissions testing, that require repairs to pass testing that are not covered by warranty, and that will be able to pass inspection once repairs are made under the program. Incentives must be commensurate to the vehicle's fair market value and may not exceed \$2,500. \$2,500 incentives are available only for vehicles with fair market values of at least \$5,000. Income eligibility is measured by the same criteria as the State's Low Income Home Energy Assistance Program (LIHEAP).
