

GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2007

Legislative Fiscal Note

BILL NUMBER: House Bill 2720 (Second Edition)

SHORT TITLE: Energy-Efficient State Motor Vehicle Fleets.

SPONSOR(S): Representatives Martin, Harrison, and Thomas

FISCAL IMPACT					
	Yes ()	No (X)	No Estimate Available ()		
	<u>FY 2008-09</u>	<u>FY 2009-10</u>	<u>FY 2010-11</u>	<u>FY 2011-12</u>	<u>FY 2012-13</u>
EXPENDITURES					
Motor Fleet Management					
	NO FISCAL IMPACT. SEE ASSUMPTIONS AND METHODOLOGY SECTION.				
POSITIONS (cumulative):					
	NONE				
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Administration, Motor Fleet Management Division and the Department of Transportation.					
EFFECTIVE DATE: July 1, 2009					

BILL SUMMARY: HB 2720 amends G.S. 143-341(8) to clarify that “fuel economy” and “class of comparable automobiles” have the same meaning as used in the Code of Federal Regulations, Title 40, Part 600 (July 1, 2007), and that “passage motor vehicle” has the same meaning as “private passenger vehicle” as defined in GS 20-4.01. This bill provides that every new passenger motor vehicle transferred to or purchased by the Department of Administration (DOA) must have a fuel economy rating in the top 15%. This bill provides that the required fuel economy rating doesn’t apply to vehicles used in law enforcement, emergency medical response, and firefighting. This bill requires DOA to report regarding the implementation and impact of the new purchase requirements no later than October 1, 2010, and annually thereafter to the Joint Legislative Commission on Governmental Operations and the Environmental Review Commission.

This bill enacts a new G.S. 136-28.16 to apply the same requirements as amended in G.S. 143-341(8) to the purchase or transfer of new passenger motor vehicles by the Department of Transportation (DOT), and requires DOT report to the Joint Legislative Commission on Governmental Operations, the Joint Legislative Transportation Oversight Committee, and the Environmental Review Commission by October 1, 2010, and annually thereafter.

ASSUMPTIONS AND METHODOLOGY:

Section 1:

Section 1 of HB 2720 requires all new non-emergency vehicles purchased by the State Motor Fleet Management Division, located in the Department of Administration, to be within the top 15% of its vehicle class (i.e. large cars, midsize cars, etc.) for fuel economy ratings as determined by the Environmental Protection Agency (EPA). The guidelines for determining fuel economy ratings are outlined in the Part 600 Title 40 of the Code of Federal Regulations (1 July 2007 Edition), and were used in this analysis.

Excluded Vehicles:

In FY 2006-07, the State purchased 111 law enforcement, emergency medical response, and firefighting vehicles. HB 2720 exempts these vehicles from the requirements of this bill.

Included Vehicles:

In FY 2006-07, the State purchased 1,053 vehicles that were not excluded from the requirements of this bill, including 11 different models, which totaled \$17.6 million.¹ The State purchased a total of 133 vehicles from 4 vehicle models with EPA fuel economy ratings in the top 15% in their classes for 2008 (Ford Escape Hybrid, Chevrolet Impala, Dodge Charger and Toyota Prius), which totaled \$2.3 million.

Therefore, the State purchased 920 vehicles that were not in the top 15% of the fuel economy ratings of their classes at a cost of \$15.3 million in FY 2006-07. Many of these vehicles purchased use alternative fuels (such as E-85), but a majority of these do not meet the standards of this bill (See Technical Considerations).

Based on an analysis that appears in the first item under "Technical Considerations," it will be less costly to purchase the lowest priced vehicles in three of four of the EPA vehicle classes using vehicles with greater fuel economy. However, the purchasing process would have to be amended to achieve those savings. Fuel efficient cars are currently available, but these vehicles have never been purchased by Motor Fleet because car dealers do not submit these models through Purchasing and Contracting for consideration in the bid process. Therefore, unless this bill amends the requirement that Purchasing and Contracting be used to buy vehicles for the State Motor Fleet, it must be assumed that the same models offered for bid will be submitted, and thus, no savings will be attained.

Section 2:

Section 2 of HB 2720 requires the NC Department of Transportation to purchase every new passenger vehicle in accordance with fuel economy ratings in the top 15% of its class as determined by the US Environmental Protection Agency. The Department of Motor Vehicles handles all of its passenger vehicle needs through the Department of Administration's motor fleet. Therefore, HB 2720 has no fiscal impact to the Department of Transportation.

¹ 13 vehicles purchased by the State in FY 2006-07 without EPA ratings were excluded from this analysis. This is because fuel economy regulations currently do not apply to vehicles with a Gross Vehicle Weight Rating (vehicle weight plus carrying capacity) of more than 8,500 pounds.

SOURCES OF DATA: NC Department of Transportation, NC Department of Administration-Motor Fleet Management Division, U.S. Department of Energy-Office of Energy Efficiency and Renewable Energy, U.S. Department of Energy-Clean Cities Program, U.S. Environmental Protection Agency.

TECHNICAL CONSIDERATIONS:

1. An analysis has been conducted to determine the fiscal impact if Motor Fleet vehicles is given the authority to purchase vehicles directly from car dealers, and therefore be exempted from the State Purchasing and Contracting requirements. Figure 1 replaces the type of vehicle currently purchased with the similar vehicle model that meets the proposed EPA requirement at the lowest-cost (See Technical Considerations). Based on Figure 1, the fiscal impact of HB 2720 is a savings of \$752,905.

Figure 1: Cost of Purchasing Similar Vehicles within the Top 15% of their classes					
FY 2006-07 Purchased Vehicles			Proposed Purchase of Vehicles		Difference
<u>Current Model</u>	<u>Quantity Purchased</u>	<u>Total Cost</u>	<u>Proposed Model²</u>	<u>Total Cost</u>	<u>Total Cost Difference</u>
Chevrolet Malibu	500	\$7,389,735	Kia Spectra	\$6,760,000	(\$629,735)
Dodge Caravan E-85	200	3,092,060	Mazda 5	3,726,000	633,940
Ford Crown Vic. Exec. E-85	60	1,177,475	Hyundai Sonata	1,100,700	(76,775)
Ford Escape Hybrid	9	234,614	Jeep Patriot	163,125	(71,489)
Toyota Prius	8	180,687	Kia Spectra	108,160	(72,527)
Dodge Charger	16	336,934	Hyundai Sonata	293,520	(43,414)
Chevrolet Suburban E-85	3	99,143	Jeep Patriot	54,375	(44,768)
Chevrolet Impala E-85	100	1,581,565	Hyundai Sonata	1,834,500	252,935
Dodge Durango E-85	35	769,487	Jeep Patriot	634,375	(135,112)
Jeep Grand Cherokee E-85	100	2,299,990	Jeep Patriot	1,812,500	(487,490)
Chevrolet Trailblazer	22	477,220	Jeep Patriot	398,750	(78,470)
GRAND TOTAL VEHICLE PURCHASES OF HB 2720					(\$752,905)

Because HB 2720 becomes effective July 1, 2009, it is not possible to predict with certainty the prices of vehicles in future fiscal years. As a result, the fiscal impact may fluctuate with market conditions.

² All vehicle prices are based upon the Manufacturer's Suggested Retail Price obtained from Kelley Blue Book Co., Inc.'s internet site at <http://www.kbb.com/>.

Fiscal Impact in FY 2009-10

Given the costs associated with maintaining State vehicles and the number and quantity of vehicles expected to be purchased in FY 2009-10, it is estimated Section 1 generates a savings of \$1,089,073 as shown in Figure 2.

<u>Expense</u>	<u>Current Cost</u>	<u>Proposed Cost</u>	<u>Difference in Cost</u>
Vehicle Purchases	\$17,638,910	\$16,886,005	\$(752,905)
Vehicle Costs	5,117,490	4,781,322	(336,168)
TOTAL FISCAL IMPACT OF SECTION 1, HB 2720 in FY 2009-10			\$(1,089,073)

Total Fiscal Impact for Future Years Resulting from Fuel Cost Savings

The Division of Motor Fleet Management will increase its rate per mile charged to State entities using motor fleet vehicles beginning July 1, 2008. With this rate increase, it is expected the Division will spend \$5.12 million on vehicle expenses in FY 2009-10. It is estimated HB 2720 saves the Division \$336,168 in fuel costs in FY 2009-10, which reduces the amount spent on vehicle expenses to \$4.8 million. The \$336,168 in fuel savings compounds each fiscal year.

<u>Expense</u>	<u>FY 2008-09</u>	<u>FY 2009-10</u>	<u>FY 2010-11</u>	<u>FY 2011-12</u>	<u>FY 2012-13</u>
Vehicle Expense Savings	0	(\$336,168)	(\$672,336)	(\$1,008,504)	(\$1,344,672)

2. The analysis included in the Technical Considerations section above uses the lowest cost of vehicles in FY 2009-10 in each of the respective classes set by the EPA. However, this bill does not stipulate that the lowest cost vehicle in each tier be used.
3. Currently, all vehicles purchased by State agencies should be capable of using B-20 fuel when possible. Excluding emergency vehicles, the State purchased a total of 498 alternative fuel vehicles in FY 2006-07. Currently, 300 of these alternative fuel vehicles do not meet the EPA fuel economy ratings required by this bill. Therefore, G.S. 143-341 (8), which requires alternative fuel vehicles, and this bill, conflict.
4. This analysis estimates life-cycle vehicle expenses to estimate the minimum monthly charge for a State vehicle. As a result, actual vehicle purchase costs and related expenses occurring in FY 2009-10 will likely differ from those in this estimate.
5. The Division of Motor Fleet Management uses a formula to determine the most cost effective vehicle to buy, based on purchase price, maintenance costs, miles per gallon, and other factors. This bill eliminates the formula and all components currently used to ensure the State purchases the vehicle with the lowest lifetime cost. It replaces the formula with the requirement that vehicles meet the EPA fuel economy ratings required of this bill.

FISCAL RESEARCH DIVISION: (919) 733-4910

PREPARED BY: Amna Cameron and Joseph Futima

APPROVED BY: Lynn Muchmore, Director
Fiscal Research Division

DATE: June 23, 2008



Signed Copy Located in the NCGA Principal Clerk's Offices