

An Act to Promote the Reduction of Green House Gas Emissions and to Reduce the Use of Fossil Fuels for Vehicles in the Commonwealth

Sponsor: Representative Frank I. Smizik

Introduction

The Bill presents the idea of a “feebate” (“fee” plus “rebate”), a simple economic carrot and stick incentive mechanism to encourage drivers to purchase more fuel efficient cars.

Our work has been motivated by a deep concern for the human-made climate crisis facing our world. This crisis is potentially catastrophic in scope. It calls for immediate and significant actions to be taken at every level of society. The United States, as the world’s largest producer of greenhouse gases, bears a special responsibility to take action. In the face of federal inaction, it has fallen to the states and localities to seek effective responses.

Transportation is one of the primary sources of greenhouse gas emissions: the burning of fossil fuels (gasoline, diesel) produces carbon dioxide (CO₂) pollution in enormous quantities, and again it is the United States that is the major culprit, driving more cars, more inefficient cars, greater distances than any other nation. It is an obvious necessity that we make a serious effort to reduce the tail pipe greenhouse gas emissions of our transportation fleet.

Our committee considered many mechanisms, including the gas tax, the excise tax, and the sales tax. We agreed without dissent that the best approach is the mechanism known in the vernacular as “feebates,” rebates for cars with good fuel efficiency and fees, or surcharges, for poorly performing cars.

Why Feebates

Feebates have the following attractive characteristics:

- **Revenue neutrality.** The mechanism presented in our legislation (the Program) is structured to at least break even: the assessed surcharges will cover both the rebates and the administrative costs of the Program. This contrasts to the handful of bills currently before the General Court which all involve tax or rebate incentives, further burdening the state budget. Feebates should be attractive to those of us concerned with the fiscal implications.
- **Simplicity.** Everyone can understand the notion of rewarding desirable behavior and charging for destructive behavior. The Program feels both straightforward and fair.
- **Point of Sale.** The Program specifies that the surcharge or rebate must be posted on the vehicle in the showroom, as well as on the sales or lease receipt. The economic impact of the incentive is immediate, and thus more likely to affect behavior than would be a delayed incentive such as change in the excise tax.

- Market driven (as opposed to regulatory). Fuel efficiency (CAFE) standards are the province of the federal government, but states are free to determine their own tax policies. This Program creates a well studied economic incentive to influence consumer behavior, and to a lesser extent, manufacturer behavior.
- Consumer Choice. The Program is designed to include a broad middle section, or “zero band,” of vehicles that receive neither a rebate nor surcharge. The zero band is constructed to ensure that consumers will have a choice of vehicle types not subject to a fee, including light trucks and SUVs.
- Role model. If enacted, this legislation will serve as a model, both to other states and to Congress. Several jurisdictions are already considering similar legislation. Should this mechanism be adopted by a threshold number of states or the federal government, then not only will consumer behavior be affected, but so will be the behavior of the manufacturers.

Program details

Our bill is modeled after two very similar bills currently before the California State Assembly and the New York State Assembly. (See Appendix B for references and on-line access.) On the advice of Rep. Smizik, we tightened our bill and narrowed the focus to the issue of fuel efficiency, or equivalently greenhouse gas emissions. Here are some of the details.

- The Program determines the fee or rebate for a given vehicle as a percentage of the Manufacturer’s Suggested Retail Price (MSRP). The percentage assigned to a vehicle is a simple function of the greenhouse gas emissions rating of the vehicle, positive if the vehicle pollutes less than the average (resulting in a rebate), and negative if the vehicle does worse than average (hence a surcharge). Note that a scale based on greenhouse gas emissions is virtually equivalent to a scale based on fuel efficiency.
- The maximum rebate and surcharge is 10%. Note, however, that of the 1,184 models in the 2007 automobile fleet, only two (the best and worst) would qualify for the full 10%. The other 1,182 models would fall somewhere in between.
- As mentioned above, the Program establishes a zero band, consisting of 20% to 25% of the entire fleet, situated roughly in the middle, for which there is no rebate or surcharge. This zero band must include multiple models from each vehicle type.
- The Program would be administered by the Executive Office of Energy and Environmental Affairs (EOEEA).
- The Program would commence in July 2010 for model year 2011, and would apply to the purchase or lease of new vehicles.
- The Program would be self-financing.
- Provisions are included for vehicles purchased out of state that are later registered in the Commonwealth.