



Memorandum

TO: RULES AND OPEN
GOVERNMENT COMMITTEE

FROM: William F. Sherry, A.A.E
Director of Aviation

SUBJECT: SEE BELOW

DATE: September 28, 2009

Approved

Date

10/7/09

SUBJECT: SUPPORT FOR THE EXTENSION OF FEDERAL ALTERNATIVE FUEL EXCISE TAX CREDIT PROVISIONS IN H.R. 1835 AND S. 1408

RECOMMENDATION

Staff recommends that the City Council support the legislative objective of extending the federal alternative fuels excise tax credit.

OUTCOME

The passage of the extension of the federal alternative fuels excise tax credit will allow the Airport's compressed natural gas (CNG) station to continue to generate significant tax credit revenue that will be used to encourage the wider use of CNG as an alternative fuel by keeping operating and maintenance costs of the Airport's CNG station down.

BACKGROUND

Since August 2003, the Airport has operated a compressed natural gas (CNG) fuel station. Although the station is open to the public, the principal customers have been taxicab companies, which have been encouraged by the Airport to use alternative fuel vehicles to serve their customers, and the shuttle buses that operate on Airport property.

As part of federal incentives to encourage the use of alternative fuel, operators of alternative fuel stations (which include liquefied natural gas or LNG and CNG), such as the Airport, currently receive a Federal alternative fuel excise tax credit of fifty cents (\$.50) per gasoline gallon equivalent (GGE) for every GGE of fuel they dispense. This federal alternative fuel excise tax credit is currently set to expire on December 31, 2009.

The purpose of this report is to request the Council's support for the legislative objective of extending the federal alternative fuel excise tax to 2027 before the current tax credit expires in December 2009.

September 23, 2009

Subject: Support for Extension of Federal Alternative Fuel Excise Tax Credit

Page 2

Currently there are at least two bills in Congress (H.R. 1835 and S. 1408) that include an extension of the current federal alternative fuels tax credit to December 2027, along with a range of other alternative fuel promotion provisions. In addition, another shorter extension of this tax credit is also under discussion as part of the annual renewal of expiring tax breaks that is typically taken up towards the end of the year.

DISCUSSION

Airport staff specifically requests Council to support extending the fifty-cent per gasoline gallon equivalent (GGE) federal alternative fuel excise tax credit for CNG. The current federal tax credit has generated about \$50,000-75,000 in revenue per quarter – or between \$200,000 and \$300,000 per year – after the deduction of the Airport's excise tax liabilities. The alternative fuel excise tax credit revenue stream generated by CNG sales at the Airport is a very important funding source in the Airport's "green" efforts, because it helps encourage the use of CNG fuel by helping to cover the Airport's costs for the operation and maintenance of the CNG station, thereby reducing the need to: 1) raise CNG fuel prices to consumers and therefore discourage the fuel's use; or 2) absorb the increased costs in the Airport's already severely constrained operating budget.

It is estimated that the loss of the alternative fuel excise tax credit would require at least a 50-cents per GGE price increase to cover the Airport's CNG station operating and maintenance costs.

City support for extending the alternative fuel excise tax is also in alignment with 2009 Legislative Principle F-17 adopted by Council on December 16, 2008 which states that, *"The City supports legislation that promotes livability, sustainable development and environmental protection that: (17) supports state and federal incentives that foster energy innovations, including energy efficiency, smart grid, clean renewable energy, energy conversion and storage technological development."*

By adopting this legislative objective, the City will be able to pursue the extension of the alternative fuels excise tax credit wherever and whenever there is an opportunity to do so.

PUBLIC OUTREACH/INTEREST

- Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

This report was posted to the City's website as part of the Rules and Open Government Committee agenda. The report will also be shared with and discussed by the Airport Commission at its meeting of October 19, 2009.

RULES AND OPEN GOVERNMENT COMMITTEE

September 28, 2009

Subject: Support for Extension of Federal Alternative Fuel Excise Tax Credit

Page 3

COORDINATION

This memorandum has been coordinated with the City Attorney's Office, the Finance Department and the City Manager's Office.

REVENUE IMPLICATIONS

If Congress does not extend the alternative fuel excise tax credit, the Airport will lose \$200,000 to \$300,000 in revenue that helps defray the costs of operating the CNG station at the Airport. Without that revenue, the Airport will need to either 1) increase the cost of CNG and thereby discourage its use; or 2) absorb the additional costs in an already severely revenue-constrained budget.

CEQA: Not a project.

/s/

WILLIAM F. SHERRY, A.A.E

Director of Aviation

For questions please contact Jim Webb, Associate Director for Government Relations at (408) 501-7600.