CNCDA
California New Car Dealers Association

June 14, 2023

Ms. Liane Randolph
Chair
California Air Resources Board
1001 I Street, Sacramento, California 95814

RE: LCFS Community Meeting Stakeholder Feedback

Dear Chair Randolph:

The California New Car Dealers Association (CNCDA) is a statewide trade association that represents the interests of over 1,200 franchised new car and truck dealer members. CNCDA members are primarily engaged in the retail sale and lease of new and used motor vehicles, but also provide customers with parts, service, and automotive repair.

Thank you for the opportunity to submit written comments following the Low Carbon Fuel Standard (LCFS) virtual community meetings. We are writing today to express support for a new LCFS-funded equity-focused zero emission vehicle (ZEV) incentive program. Such a program should recognize the realities of the light duty ZEV marketplace, including the limitations of the revised $7,500 federal tax credit. If properly designed, a new ZEV equity program could meaningfully increase ZEV adoption in disadvantaged communities throughout California.

Future LCFS Incentives Should Focus on Increasing ZEV Adoption in Disadvantaged Communities

The light-duty ZEV marketplace has greatly matured in California over the past several years. ZEVs comprise over 20% of new vehicle sales and new and exciting ZEVs are arriving at dealer lots every day. Substantial new federal tax incentives for ZEVs will also support adoption for years to come.

Despite these successes, other industry trends are concerning, particularly for moderate and lower-income Californians. Since 2020, new and used vehicle prices have increased greatly. Affordability has taken an additional hit with interest rates for car loans rising following increases to the Federal Funds Rate beginning in early 2022. As a result, Californians are holding onto their vehicles longer.[1] The average age of light-duty vehicles on the road is over 12 years, and the oldest, most polluting vehicles are concentrated in the areas of the state with the worst air quality and lowest

[1] "The Average Car is Now a Record 12.5 Years Old," *Road and Track*, May 16, 2023, available at: https://www.roadandtrack.com/news/a43903366/average-car-age-12-years/#

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income.[2] Unfortunately, it appears likely that, without substantial state incentives, ZEV adoption in disadvantaged communities will continue to substantially lag compared to wealthier areas. Additionally, the non-refundable federal ZEV tax credit will provide little benefit to many moderate and lower-income Californians, as such persons typically have a federal income tax obligation of much less than $7,500.[3]

Given the reality that California is outpacing[4] its goals on new ZEV sales, but that affordability for new and used vehicles is near all-time lows, a new approach is needed for LCFS-funded ZEV incentives. Universal incentive programs, such as Clean Fuel Reward, which provided a modest $750 incentive on all qualifying new ZEVs, fail to meaningfully increase adoption and they do not address the widening gap of ZEV adoption between wealthy and disadvantaged areas within California. Considering this, we recommend that LCFS funds be directed to an equity-focused ZEV incentive program.

A New Equity Program Should be Simple for Dealers to Implement and for Consumers to Understand

Although we do not recommend that CARB restart a universal ZEV incentive program, like the Clean Fuel Reward (CFR), widespread adoption of the CFR program by dealers demonstrates that any new ZEV equity incentive should be both simple to implement and understand, and applied point-of-sale.

Programmatic simplicity is key to the success of any program. Customer eligibility criteria should be simple, and if possible, align with existing program eligibility criteria. For example, a new ZEV equity program could align income eligibility criteria with existing Clean Cars 4 All programs. Additionally, any income verification process must be easy and reliable for customers and participating dealers. Consumers must be able to easily apply for an incentive, and dealers must be able to rely on eligibility information and be promptly reimbursed after applying the incentive to a sales or lease contract.

Point-of-sale application of any incentive is also critical to the success of any equity-focused ZEV incentive program. A substantial point-of-sale incentive could be used as a down payment for a vehicle, which increases purchase and lease options and reduces monthly payments.

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[2] "New Study Finds Aging Gas Vehicles Cause Significant Pollution in California's Low-income Neighborhoods and Communities of Color," *Union of Concerned Scientists*, June 6, 2023, available at: https://www.ucsusa.org/about/news/new-study-finds-aging-gas-vehicles-cause-significant-pollution-california (noting that "California must prioritize getting the most polluting vehicles off the road by continuing to invest in equitable incentive programs to help people switch to cleaner models that are more affordable to operate.")
[3] "Credits for New Clean Vehicles Purchased in 2023 or After," *Internal Revenue Service*, Accessed June 13, 2023, available at https://www.irs.gov/credits-deductions/credits-for-new-clean-vehicles-purchased-in-2023-or-after ("The credit is nonrefundable, so you can't get back more on the credit than you owe in taxes.")
[4] "California Surpasses 1.5 Million ZEVs Goal Two Years Ahead of Schedule," *Office of Governor Gavin Newsom*, April 21, 2023, available at: https://www.gov.ca.gov/2023/04/21/california-surpasses-1-5-million-zevs-goal-two-years-ahead-of-schedule/

A New Equity Incentive Program Should Reflect Marketplace Realities, Including Clean Cars 4 All, the Probable End of CVRP, and the Limitations of the Federal Tax Credit

As we head into 2024, it appears likely that Californians will experience substantial changes to the availability and application of ZEV incentives. The IRS is set to develop a process to implement the federal tax credit point-of-sale[5], which will provide benefits to many middle and upper-middle income Californians. However, the non-refundable nature of the federal tax credit will limit its benefit to lower and moderate-income Californians, as they often have little federal income tax liability. And the CVRP program will likely exhaust funds in or around November 2023.[6] These developments (the end of CVRP and, most importantly, the nonrefundable nature of the federal tax credit) present challenges to ZEV affordability for lower and moderate-income Californians.

Despite these challenges, a new state ZEV equity incentive program could multiply its effectiveness by focusing on vehicle leasing. Vehicle leasing potentially allows the consumer to fully benefit from the $7,500 federal tax credit regardless of tax liability, as the leasing company could claim the credit and pass it along to the customer in the form of a rebate, which would reduce monthly lease payments.

The following is a simplified example[7] of how a hypothetical $7,500 state ZEV equity incentive could work in concert with the $7,500 federal tax credit, to make a $40,000 new ZEV affordable for a moderate-income Californian.

Vehicle Price	**$40,000**
Lease Term	36 months
Interest Rate	7%
Down Payment	$15,000 total $7,500 fed tax credit $7,500 state ZEV equity incentive
Sales tax	10%
Residual Value	$20,000
Monthly Lease Payment	**$297.15**

A ZEV equity program that takes advantage of the benefits of leasing could also allow a consumer to use incentives at the end of the lease term if the customer elects to exercise the lease purchase option. This would further promote ZEV ownership in disadvantaged communities.

[5] "EV Tax Credits Explained," *National Automobile Dealers Association*, April 18, 2023, available at: https://www.nada.org/nada/nada-headlines/ev-tax-credits-explained ("The final improvement [to the federal ZEV tax credit] looks to 2024, when there is a provision that allows the value of the credit under 30D to be transferred to the dealer, so that the dealer can include the credit in the sales transaction.")

[6] "April 2023 CVRP Projection Updates," *Center for Sustainable Energy*, May 24, 2023, available at: https://cleanvehiclerebate.org/sites/default/files/attachments/20230524-CVRP_Projections_April_2023_Update.pdf

[7] The sample lease payment was calculated using the Auto Lease Calculator available on Calculator.net. The calculator can be accessed at: https://www.calculator.net/auto-lease-calculator.html

The following is a simplified example[8] of how this might work if the customer in the hypothetical from above elected to exercise their lease purchase option in conjunction with the application of a Clean Cars 4 All rebate.

Lease Purchase Option Price (Residual Value)	**$20,000**
Loan Term	60 months
Interest Rate	7%
Down Payment	$9,500 - Clean Cars 4 All
Sales tax	10%
Title/Registration Fees	500.00
Monthly Payment	**$207.91**

Although they are simplified, the above-mentioned examples illustrate how a new equity incentive could be applied in conjunction with existing federal and state incentives to make new ZEVs affordable for moderate-income Californians. The importance of incorporating the $7,500 federal tax incentive into any future program cannot be overstated, as it substantially increases ZEV affordability. And because of the nonrefundable nature of the federal tax credit, the most powerful option to capture it for lower and moderate-income Californians is through leasing.

Program Design Should Encourage Dealership Participation

At the risk of stating the obvious, manufacturers, dealers, and finance companies are for-profit businesses. We are interested in serving our customers to earn income. When designing any ZEV incentive program, CARB should seek to use all possible methods to encourage participation, particularly if program design increases friction in the vehicle transaction process. In other words, if salespeople and dealership staff are being asked to do more to serve incentive-qualifying consumers, CARB could consider encouraging participation through direct financial incentives in the form of cash payments. For example, dealerships could earn incentives on a per-vehicle sold/leased basis. Or alternatively, the most successful dealerships could earn larger cash incentives. Regardless, CARB should consider dealership incentives to participate in such a program, as they could increase dealership participation, which would increase consumer choice at minimal cost to the state.

[8] The lease purchase option example was calculated using the Auto Loan Calculator available on Calculator.net. The calculator can be accessed at: https://www.calculator.net/auto-loan-calculator.html

CNCDA looks forward to continuing its dialogue with CARB and all stakeholders on this important issue. Should you have any questions about this letter, do not hesitate to contact me.

Sincerely,

Anthony Bento
Chief Legal Officer
California New Car Dealers Association