

Department of Legislative Services
 Maryland General Assembly
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FISCAL AND POLICY NOTE
 Revised

House Bill 367

(Delegate Cardin, *et al.*)

Environmental Matters

Judicial Proceedings

Qualified Hybrid Vehicles - Exemption from Motor Vehicle Emissions Test and Inspection Requirements - Sunset Repeal

This bill extends the current exemption for qualified hybrid vehicles from the State Vehicle Emissions Inspection Program (VEIP) to September 30, 2009. The definition of qualified hybrid vehicle is updated to reflect current federal emissions standards.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) revenues would decrease by \$47,200 in FY 2007 due to extension of the exemption for qualified hybrid vehicles. Future year estimates reflect an increase in the number of hybrids sold and registered in VEIP counties in future years, and the September 30, 2009 termination date. No effect on TTF expenditures.

(in dollars)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
SF Revenue	\$0	(\$47,200)	(\$83,800)	(\$119,900)	(\$38,000)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	\$0	(\$47,200)	(\$83,800)	(\$119,900)	(\$38,000)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: Potential minimal effect if a small business owns a qualified hybrid.

Analysis

Current Law: Chapter 273 of 2003 makes qualified hybrid vehicles exempt from mandatory emissions tests and inspection. A hybrid vehicle is exempt if its city fuel economy is at least 50 miles per gallon. Only two commercially available hybrids, the Toyota Prius and the Honda Insight, currently meet that target. The exemption ends on September 30, 2006.

Background: VEIP was created in 1984 to test vehicle emissions for carbon monoxide, hydrocarbons, and nitrogen oxides to meet the air quality standards established in the federal Clean Air Act (CAA). All model year 1977 and newer vehicles in the State must be inspected and tested every two years; however, some vehicles are exempt, including:

- ambulances and other emergency vehicles;
- vehicles that are driven less than 5,000 miles each year whose owners are 70 or older or have certain disabilities;
- vehicles weighing more than 26,000 pounds; and
- electric vehicles.

Approximately 1.4 million vehicles are required to submit to the VEIP test annually. Vehicles manufactured after 1995 are subject to on-board computer diagnostic tests that detect flaws in various systems; numeric emissions standards do not apply. Model year 1984 through 1995 vehicles must pass the traditional “treadmill” test that uses quantitative emission standards. The current fee is \$14.

Hybrid vehicles use two types of power. Most of the recent publicity has been about electric-gasoline hybrids, containing both an electric motor and a gasoline engine. The electric motor is powered through a technique called “regenerative braking,” which captures the kinetic energy released by braking and uses it to power the electric motor. This electric motor helps the gasoline engine to propel the vehicle, meaning the vehicle requires a smaller gasoline engine.

These cars are more fuel efficient than conventional vehicles and therefore release less pollution into the atmosphere. The State has shown interest in promoting hybrid and alternate fuel technology and has leased a vehicle that runs on hydrogen for State use. The State fleet also contains 120 compressed natural gas vehicles. In addition, the State enacted a tax credit against the motor vehicle excise tax for owners of hybrid vehicles under the Maryland Clean Energy Incentive Act of 2000. The credit ranged from \$125 to \$1,000 depending on the type of hybrid purchased. That credit has since expired.

The number of hybrids sold has increased in recent years. Six hybrid models are now available for sale in the United States, with close to a dozen more coming in the near future. Market research firm JD Powers and Associates predicts that hybrid sales in the United States could reach 222,000 in 2005, accounting for 1.3% of all new vehicle sales.

State Revenues: The Motor Vehicle Administration (MVA) advises that there are currently 4,398 hybrids registered in Maryland, of which 95.34% are registered in counties subject to VEIP requirements. The MVA also estimates that the number of hybrids sold will reach 8,475 per year by fiscal 2010.

TTF revenues will decrease by \$47,173 in fiscal 2007. TTF revenues will decrease by \$83,788 in fiscal 2008, \$119,887 in fiscal 2009, and \$37,967 in fiscal 2010. There will be no fiscal impact in fiscal 2006 as the current exemption does not expire until the end of the first quarter of fiscal 2007. This estimate is based on the following additional information and assumptions:

- all hybrids sold would be eligible for the VEIP exemption;
- each vehicle sold and registered in eligible counties would be inspected two years after sale;
- VEIP inspection fees would not increase;
- the proportion of hybrids registered in VEIP counties to total hybrids in the State will not change; and
- one-half of current vehicles registered would otherwise be inspected in fiscal 2006, and one-half would otherwise be inspected in fiscal 2007.

Only two models sold currently meet the VEIP exemption. The Ford Escape does not meet VEIP requirements, nor do the Honda Accord or Civic hybrids. As most of the hybrids sold to this point do have a fuel economy of 50 miles per gallon, and therefore do qualify for the VEIP, it is difficult to accurately predict what the percentage of future hybrids sales would be vehicles which achieve a fuel economy of 50 miles per gallon.

State Expenditures: The MVA advises that it has a contract with a vendor whereby the vendor performs the emissions test and inspection and retains the \$14 fee. The contract has a predetermined number of vehicles that the MVA assumes will be tested in each year. If the number of vehicles tested does not meet the predetermined number of vehicles per contract, the MVA has to pay the difference (\$14 multiplied by the difference between the number of vehicles predetermined in the contract, and the number of vehicles actually tested). However, the MVA did not have to pay vendors any funds in fiscal 2004. Since the exemption was in effect at that point, and the number of hybrids registered in the State now and in the next five years will be a tiny minority of vehicles, it

is unlikely that the MVA would miss the predetermined number of vehicles because of hybrid exemptions.

The MVA advises that computer reprogramming costs could be handled with existing resources.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Department of the Environment, Maryland Department of Transportation, JD Power and Associates, Department of Legislative Services

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