

Department of Legislative Services
 Maryland General Assembly
 2000 Session

FISCAL NOTE

Senate Bill 562 (Senator Currie. *et al.*)

Economic and Environmental Affairs and Budget and Taxation

Environment - Water Resources - Car Wash Conservation Program

This bill establishes a Car Wash Conservation Program in the Maryland Department of the Environment (MDE) to encourage car washing facilities to use water efficiently and responsibly.

The bill takes effect October 1, 2000, and sunsets September 30, 2010. The bill is applicable to all taxable years beginning after December 31, 2000.

Fiscal Summary

State Effect: General fund expenditure increase of at least \$31,400 in FY 2001 to implement the car wash program. Future year estimates are annualized, adjusted for inflation, and reflect ongoing operating expenses. Assuming all car wash businesses participate, net revenues would decrease by \$1.2 million in FY 2002 due to the tax credit and revenues from certification fees. Future year estimates reflect tax credits and certification fees for newly certified facilities and renewal fees.

(in dollars)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Revenues	\$25,000	(\$1,237,000)	(\$11,750)	(\$11,500)	(\$11,250)
GF Expend.	31,400	36,400	38,100	39,900	41,800
Net Effect	(\$6,400)	(\$1,273,400)	(\$49,850)	(\$51,400)	(\$53,050)

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

Local Effect: If any of the facilities receiving a tax credit are corporations, local revenues from the Transportation Trust Fund (TTF) will decrease by 30% of the amount of the total decrease in TTF revenues.

Small Business Effect: Potential meaningful impact on car wash businesses. Small

charitable organizations would also benefit.

Analysis

Bill Summary: The bill authorizes MDE to adopt regulations to implement the program, which would include a voluntary certification process. Facilities certified under the program must meet several specified criteria relating to the maintenance and replacement of water usage devices, the repair of water leaks, toilet replacement, hose and faucet use, the reuse of water discharges, and employee education. In addition to those criteria:

- each self-service car wash facility certified under the program must also meet criteria relating to the use of specified valves, calibration of nozzles and pump systems, and the service and maintenance of the facility's weep system;
- each full-service car wash certified under the program must also meet criteria relating to the installation of automatic high-level cut-offs in washing machines and the use of reclaimed water; and
- each roll-over/in-bay automatic car wash facility certified under the program must also meet criteria relating to the use of specified valves, the use of a five-second dwell time to provide for the collection of water into the pit, and the use of reclaimed water.

A facility applying for certification by MDE is subject to inspection, and the owner or operator of the facility must execute an agreement with MDE. A facility accepted for certification must pay an initial fee of \$50 and an annual renewal fee of \$25 for each year of participation. A certified facility:

- is subject to the same water restrictions imposed on other commercial users when a drought emergency plan is in effect;
- must comply with specified requirements when a drought emergency plan is in effect;
- must participate in a minimum of three charitable organization car wash fundraisers annually;
- is subject to inspections by MDE without notice;
- may display signage approved by MDE advertising its certification;
- may be identified on a list of certified car wash programs published annually by MDE;
- may use a logo or phrase approved by MDE in advertising, mailings, and other promotional material indicating its certification; and
- may claim a one-time credit against the State income tax for a taxable

year not exceeding the lesser of \$2,500 or an amount equal to 50% of the cost of specified water conservation equipment.

If MDE discovers that a facility is not in compliance, MDE must: (1) issue a notice to the owner or operator and provide 14 days for the facility to come into compliance; (2) revoke the certification if the reported deficiencies are not repaired; and (3) prevent a certified facility from operating during a drought emergency until deficiencies are repaired.

A facility that does not participate in the certification program may be subject to more stringent regulations when a drought emergency plan is in effect.

Current Law: No such program exists in statute.

Background: Based on industry data, there are approximately 500 car wash businesses in Maryland.

State Expenditures: General fund expenditures could increase by an estimated \$31,300 in fiscal 2001, which accounts for the bill's October 1, 2000, effective date. This estimate reflects the cost of hiring one sanitarian to write regulations, conduct inspections, develop and maintain a database, review and process applications, follow up on inspections and application reviews, approve and/or develop signage and logo, develop agreements with car washes, approve water conservation equipment upgrades, and publish annually a list of certified facilities. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses. Legislative Services advises that after the program is implemented and the actual number of businesses participating in the program is determined, additional resources could be needed.

Salaries and Fringe Benefits	\$2
Equipment	
Other Operating Expenses	
Total FY 2001 State Expenditures	\$3

Future year expenditures reflect: (1) full salary with 4.5% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

State Revenues: The bill establishes a certification fee of \$50 and an annual renewal fee of \$25. The actual number of car wash businesses that will participate in the certification

program is unknown. However, if all 500 car wash businesses in the State become certified, general fund revenues could increase by an estimated \$25,000 in fiscal 2001. Future year estimates assume that all 500 certified facilities pay the renewal fee and that ten additional car washes are established annually and become certified.

The bill also establishes a one-time tax credit for certified commercial car washes against the State income tax for the lesser of \$2,500 or 50% of the cost of water conservation equipment which is installed or upgraded in an existing facility in order to qualify for the program. To qualify, all water conservation equipment upgrades must be approved by MDE. Credits for equipment placed in service from August 4, 1999, through December 31, 2000, may be claimed on returns for tax year 2000. For subsequent years, credits must be taken in the year the equipment is placed in service. The credit may not exceed the State income tax for any year, but the excess may be carried forward for up to five years or until used.

Costs for water conservation equipment vary dramatically. For example, costs for a 1.6 gallon toilet range from \$75 to \$200, while estimates for water reclaim systems range from \$7,500 to \$42,000. Estimated costs for a large system can be as high as \$55,000 to \$60,000. It is reasonable, therefore, to assume that all eligible entities would receive the maximum credit of \$2,500. Assuming that all 500 businesses are eligible to receive the tax credit in tax year 2001, State revenues would decrease by an estimated \$1.25 million in fiscal 2002 (500 x \$2,500). Depending on whether the qualifying entities are corporations or pass-through entities, the distribution of the decrease in revenues will vary. If all entities claim the credit against the corporate tax, then general fund revenues would decrease by 75%, or \$937,500, and special fund revenues (Transportation Trust Fund) would decrease by 25%, or \$312,500. If all entities claim the credit against the individual income tax, then all of the decrease in revenues would be borne by the general fund. Future year estimates assume that ten additional car washes will become eligible for the credit annually.

Small Business Effect: Small car wash businesses that are certified under the program could benefit from the one-time tax credit of the lesser of \$2,500 or 50% of eligible costs. Certified businesses could also benefit from additional sales if the certification program and related advertising increase business. Small businesses not certified under the program could be disproportionately disadvantaged with respect to water restrictions in the event of a drought emergency. Small charitable organizations will benefit from the fundraisers in which certified facilities must participate.

Additional Information

Prior Introductions: None.

Cross File: HB 711 (Delegate Shriver, *et al.*) - Environmental Matters.

Information Source(s): Maryland Department of the Environment, Office of the Comptroller, Department of Legislative Services

Fiscal Note History: First Reader - February 25, 2000

ncsjr

Analysis by: Lesley Frymier

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 946-5510
(301) 970-5510