

Department of Legislative Services
 Maryland General Assembly
 2003 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 206

(Senators Grosfeld and Britt)

Judicial Proceedings

Environmental Matters

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

This bill exempts a hybrid vehicle from the State's Vehicle Emissions Inspections Program (VEIP) if its city fuel economy is at least 50 miles per gallon, as rated by the U.S. Environmental Protection Agency. It also requires the Motor Vehicle Administration (MVA) to adopt regulations to implement the exemption.

The bill terminates September 30, 2006.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) expenditures would increase by \$10,500 in FY 2004 due to an increase in VEIP contract costs resulting from a decrease in the number of vehicles required to be tested. Annual expenditures would increase as the number of exempt vehicles grows until FY 2007.

(in dollars)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Revenues	\$0	\$0	\$0	\$0	\$0
SF Expenditure	10,500	21,000	27,300	8,400	0
Net Effect	(\$10,500)	(\$21,000)	(\$27,300)	(\$8,400)	\$0

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

Local Effect: None.

Small Business Effect: Minimal or none.

Analysis

Current Law: State law defines a qualified hybrid vehicle as an automobile that: (1) meets all regulatory requirements; (2) meets current vehicle exhaust standards set under the National Low-Emission Vehicle Program for gasoline-powered passenger cars; and (3) can draw propulsion energy from both gasoline or diesel fuel and a rechargeable energy storage system that are on-board. The national low-emission standards apply to all cars.

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 less than two years old;
- vehicles owned by individuals aged 70 and over or with certain disabilities who drive less than 5,000 miles each year;
- vehicles over 26,000 pounds; and
- electric vehicles.

The current test fee is \$14 per vehicle. The MVA and the Secretary of Environment may jointly adopt rules and regulations to exempt certain vehicles from the inspections and tests that are consistent with federal law.

Chapter 296 of 2000 exempted qualified electric and hybrid vehicles from the motor vehicle excise tax. The exemption, which expires July 1, 2004, is applied on a sliding scale that increases according to the amount of the vehicle's rechargeable energy storage.

Background: Hybrid vehicles use two sources of power – gasoline and one of several types of alternative fuel, such as methanol and denatured ethanol, natural gas (compressed or liquefied), liquefied petroleum gas, coal-derived liquid fuels, or fuel derived from biological materials. A limited number of hybrid vehicles are available commercially, including the Honda Insight and Civic and the Toyota Prius. The average price per vehicle is \$20,000; the features added to the hybrid car add between \$1,000 and \$5,000 to the cost. Sales of the hybrids have grown but still account for only 0.2% of overall sales (30,000 out of 16.8 million). Other manufacturers, including General Motors (GM) and Saturn, have announced that they plan to introduce hybrid cars or sport utility vehicles (SUVs). Hybrid SUVs, which are expected in 2006 from GM, are expected to be extremely popular. According to a survey of 5,200 new vehicle buyers,

consumers are motivated to buy a hybrid vehicle due to fuel prices, concern about the environment and U.S. dependency on foreign oil, and potential federal tax incentives. About 30% of those surveyed said they would definitely consider buying a hybrid electric vehicle.

Maryland has operated a vehicle emissions inspection and maintenance (I/M) program in various parts of the State since 1984. Maryland's VEIP was reauthorized in 1991 through legislation requiring the MVA and the Maryland Department of the Environment (MDE) to establish an expanded and enhanced I/M testing program in compliance with the 1990 amendments to CAA. As amended in 1990, CAA requires all areas of the country to achieve specific air quality standards for ozone, and provides penalties for states failing to achieve the standards. Penalties include limits on new industries, loss of federal highway funds, and imposition of a federal implementation plan.

Approximately 1.2 million vehicles are required to submit to the VEIP test annually. MDE advises that vehicles manufactured after 1995 are subject to on-board computer diagnostic tests that detect flaws in various systems; numeric emission standards do not apply. Model year 1984 to 1995 vehicles must pass the traditional "treadmill" test that uses quantitative emission standards.

State Fiscal Effect: Based on information provided by the MVA and MDE, an estimated 2,000 vehicles will qualify for an exemption from the VEIP test; because the test is biennial, only half (1,000) would be exempt in fiscal 2004. Under the existing contract for VEIP, test fees are retained by the contractor and used to offset contract costs. The MVA is billed for additional contract costs, which are borne by the TTF.

Accordingly, TTF expenditures will increase by approximately \$10,500 in fiscal 2004, which reflects the bill's October 1, 2003 effective date. Out-year expenditures will increase at varying rates, until September 30, 2007, based on the U.S. Energy Information Administration's forecast for sales of electric-gasoline hybrid cars in the South Atlantic region, which includes Maryland, the District of Columbia, Virginia, and six other states. It is unknown if all these vehicles will meet the gas mileage requirement specified under the bill.

The future popularity of hybrid cars is difficult to predict and it is unclear whether the termination of the excise tax exemption will affect sales; however, the Department of Legislative Services (DLS) notes that the number of vehicles that qualify for the excise tax exemption increased from 222 in 2001 to 554 in fiscal 2002. As the variety of models increases, the sales of hybrids are expected to increase.

Additional Comments: DLS advises that for fiscal 2003, program costs exceed VEIP fee revenues (including late fees) by an estimated \$4.1 million. The gap is expected to increase to \$4.4 million in fiscal 2004.

Additional Information

Prior Introductions: None.

Cross File: HB 61 (Delegate Hubbard) – Environmental Matters.

Information Source(s): Department of the Environment, Department of Transportation, Department of Legislative Services

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