

Department of Legislative Services
 Maryland General Assembly
 2010 Session

FISCAL AND POLICY NOTE

House Bill 9 (Delegate McConkey, *et al.*)
 Environmental Matters

Vehicle Laws - Vehicle Emissions Inspection - Test Performed by Dealers

This bill authorizes licensed vehicle dealers to conduct an exhaust emissions test required under the Vehicle Emissions Inspection Program (VEIP). A test may only be conducted by means of an on-board diagnostics (OBD) test on specified vehicles. A dealer must collect the fee established under current law for VEIP tests (currently \$14) and is prohibited from imposing any additional fees. A dealer must report test results and forward fees collected on a monthly basis to the Motor Vehicle Administration (MVA).

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) expenditures increase by \$250,300 in FY 2011 for payment of a VEIP management fee to the Maryland Department of the Environment (MDE) and for MVA personnel costs. Future year estimates are annualized and adjusted for inflation. TTF revenues are not affected.

(in dollars)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
SF Revenue	\$0	\$0	\$0	\$0	\$0
SF Expenditure	\$250,300	\$211,600	\$221,900	\$232,700	\$244,200
Net Effect	(\$250,300)	(\$211,600)	(\$221,900)	(\$232,700)	(\$244,200)

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

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: The bill only applies to vehicles that are 1996 model year or newer, weigh less than 8,501 pounds, and are equipped with a computer controlled engine and fuel system. A test conducted under the bill may only be conducted on equipment that meets requirements established by MVA.

Current Law/Background: In response to requirements of the federal Clean Air Act, Maryland has operated a vehicle emissions inspection and maintenance program in various parts of the State since 1984. All model year 1977 and newer vehicles in the State, unless specifically exempted, must be inspected and tested every two years for a \$14 fee.

VEIP testing in Maryland is operated as a centralized system. VEIP stations are leased by the State with a contractor performing the tests and maintaining the facilities under State oversight. The VEIP testing network currently consists of 18 inspection stations located in 13 counties (Anne Arundel, Baltimore, Calvert, Carroll, Cecil, Charles, Frederick, Harford, Howard, Montgomery, Prince George's, Queen Anne's, and Washington) and Baltimore City. Around 1.6 million tests are conducted annually.

State Expenditures: TTF expenditures increase by about \$250,260 in fiscal 2011, which includes an increase in the management fee paid to MDE and an increase in MVA personnel costs, as described below.

MDE Management Fee

MVA has an agreement with MDE under which MDE is reimbursed for certain VEIP-related expenses. MDE's Mobile Sources Control Program is responsible for implementing a certification program for emissions inspections facilities, repair technicians, and self-inspection stations, conducting quality assurance audits, and providing training for repair technicians.

The management fee is expected to increase by an estimated \$199,450 in fiscal 2011, which accounts for the bill's October 1, 2010 effective date. This estimate reflects the cost of hiring three audit inspectors to conduct training and monthly inspections of participating dealers. It includes salaries, fringe benefits, one-time start-up costs (including vehicles and audit equipment), and ongoing operating expenses. Based on information provided by MDE and MVA, the estimate assumes that approximately 300 dealers would choose to conduct VEIP tests under the bill.

Positions	3
Salaries and Fringe Benefits	\$99,602
Automobile Purchase/Operations	72,648
Equipment/Other Operating Costs	<u>27,200</u>
Total FY 2011 MDE Expenditures	\$199,450

MDE reimbursable funds (revenues and expenditures) increase correspondingly. Legislative Services notes that, according to MVA, there were about 1,475 licensed dealers in the State in 2009. To the extent participation by dealers differs significantly from the above estimate, the MDE management fee varies accordingly.

MVA Personnel

TTF expenditures for MVA personnel increase by an estimated \$50,810 in fiscal 2011, which accounts for the bill's effective date. This estimate reflects the cost, including benefits, start-up costs, and operating expenses, for MVA to hire an accountant to collect VEIP fees from dealers for transfer to the vendor. The bill requires a dealer to "forward the fees collected to the Administration." Currently, statute requires that fees be collected in a manner established by MVA, and this process has resulted in the accounting of fees by the vendor. Under this bill, however, MVA will be responsible for collection of fees from dealers.

Position	1
Salary and Fringe Benefits	\$47,495
Equipment/Operating Expenses	<u>3,315</u>
Total FY 2011 MVA Personnel Expenses	\$50,810

Future year TTF expenditures reflect full salaries with 4.4% annual increases and 3% employee turnover; and 1% annual increases in ongoing operating expenses.

State Revenues: TTF revenues are not affected. MVA's contract with the vendor guarantees minimum payments to the vendor through test fees collected at the VEIP stations. Currently, fee revenues are retained by the VEIP vendor, and late fees are forwarded to the TTF. MVA advises that, under this bill, any test fees collected from dealers would simply be passed on to the VEIP contractor to meet MVA's contractual obligation. Late fees would continue to be deposited in the TTF.

Small Business Effect: There are about 1,475 licensed dealers in the State. It is estimated that approximately 300 of those dealers will conduct VEIP tests in accordance with the bill. According to information provided by MVA, costs to dealers may be significant. First, dealers need to purchase equipment that allow for online communications with the VEIP vendor for tracking purposes. Other equipment such as

printers will likely also be needed. Second, OBD test equipment is needed at a cost of between \$7,900 and \$11,500 per system with an additional \$1,150 to \$1,800 in estimated annual maintenance costs. Third, dealers will likely be charged a dial-up transaction fee by the VEIP vendor to cover host services and recordkeeping (estimated at \$2.50 per transaction). Fourth, there will be costs associated with dealer forms and other supplies. The number of tests dealers will conduct under the bill is unknown.

Presumably, dealers will only participate to the extent that the estimated benefits of participation outweigh the costs. Although the bill precludes dealers from charging an additional VEIP fee, dealers may have an incentive to opt into the program in order to attract additional vehicle owners for repairs and/or car sales, which may provide a meaningful benefit.

Additional Comments: Legislative Services advises that there are several potential issues related to the implementation of the bill. First, the bill requires that new VEIP stations established at private vehicle dealerships submit monthly test results to MVA. However, MVA advises that federal regulations require that test equipment be connected to the State's centralized database for instantaneous communication of test results. It is unclear if the bill's mandated monthly reporting requirement is unrelated to this federal regulatory requirement.

Second, the bill only requires a vehicle dealer to be equipped with OBD test equipment, for testing of vehicles of model year 1996 or newer. MDE advises that federal regulations require that all emissions inspection stations be equipped to test all vehicles. However, not all vehicles are able to be tested with OBD equipment. To the extent that vehicle dealers are required to purchase other forms of emissions inspection equipment, dealer costs will increase, and consequently, the number of participating dealers may be reduced.

Finally, one of the principal benefits of a decentralized network of emissions inspection stations is the convenience associated with testing a vehicle at a location that can also handle repairs if an emissions related problem is found. However, in Maryland and many other states, major repairs are often subsidized or waived under certain circumstances. In order to obtain a waiver of repair costs or handle other administrative matters, currently a person must visit a State VEIP station or MVA branch; this may significantly reduce the convenience incentive of a decentralized network of inspection sites.

Additional Information

Prior Introductions: HB 927 of 2005 received an unfavorable report from the House Environmental Matters Committee.

Cross File: None.

Information Source(s): Maryland Department of the Environment, Maryland Department of Transportation, U.S. Environmental Protection Agency, Department of Legislative Services

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Analysis by: Evan M. Isaacson

Direct Inquiries to:
(410) 946-5510
(301) 970-5510