

Department of Legislative Services
Maryland General Assembly
2023 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 312 (Delegate Fraser-Hidalgo)
Environment and Transportation

Vehicle Emissions Inspection Program - Not Subject to Inspection - Fee

This bill requires the Motor Vehicle Administration (MVA) to establish a \$14 biennial fee on certain motor vehicles registered in the State that are granted a waiver from, exempted from, or not subject to the Vehicle Emissions Inspection Program (VEIP). MVA must collect the fee and deposit any revenues into the Maryland Strategic Energy Investment Fund (SEIF). Funds must be used only to (1) provide rebates on the sale of electric vehicles; (2) purchase electric transit and school buses; and (3) expand electric vehicle infrastructure.

Fiscal Summary

State Effect: SEIF special fund revenues increase, likely by several million dollars annually, beginning in FY 2024; special fund expenditures increase correspondingly for authorized uses. Transportation Trust Fund (TTF) expenditures also increase beginning in FY 2024 due to additional fee mailing notices. MVA and the Maryland Energy Administration (MEA) can otherwise implement the bill's requirements with existing budgeted resources. Negligible increase in State expenditures for State agencies with specified emergency vehicles.

Local Effect: Local governments must pay the \$14 fee for their emergency vehicles; they may also benefit to the extent they are eligible to receive financial assistance under the bill for the specified activities, as discussed below.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: MVA must establish a \$14 biennial fee on each motor vehicle registered in the State that is:

- granted a waiver from mandatory inspections under the State's emissions control program, as required by the federal Clean Air Act;
- not subject to mandatory inspections due to the age of the vehicle (*i.e.*, vehicles of a model year earlier than 1977); or
- exempt under other provisions, such as those related to emergency vehicles; certain vehicles owned by drivers age 70 or older; and motor vehicles owned by an active-duty member of the U.S. Armed Services, as specified.

Current Law:

Vehicle Emissions Inspection Program

Statutory provisions generally require all model year 1977 and newer vehicles in the State to be inspected and tested every two years, unless specifically exempt. MVA and the Maryland Department of the Environment must set the VEIP fee for each vehicle to be inspected and tested, which may not exceed \$14. The current fee is \$14.

Regulations that took effect in January 2023 made significant changes to the program. Among other changes, the regulations extended (from 36 months to 72 months) the period of time for the initial testing of new vehicles of up to 8,500 pounds that have previously had only a manufacturer's certificate of origin (*i.e.*, were not previously owned.) The regulations also eliminated idle exhaust emissions tests, catalytic converter checks, and gas cap leak checks, and established additional exemptions from testing for certain other vehicles.

Certain types of vehicles are exempt from VEIP (either through statute or regulation), including:

- all vehicles with a model year of 1976 or earlier;
- vehicles weighing more than 26,000 pounds (gross vehicle weight);
- zero-emission vehicles;
- vehicles powered solely by diesel fuel or electricity;
- motorcycles;
- vehicles registered as farm trucks, farm truck tractors, or farm area vehicles;
- historic or antique vehicles;

- any fire apparatus or rescue apparatus owned or leased by the State of Maryland, a county, municipality, or volunteer fire department or rescue squad;
- ambulances;
- vehicles registered to owners age 70 or older, or vehicles registered with hard metal disabled tags, that are driven 5,000 miles per year or less (if co-owned, both owners must qualify for the waiver, and mileage must be recertified every two years to continue to receive the waiver);
- vehicles registered as Class N (street rod);
- military vehicles owned by the federal government and used for tactical, combat, or relief operations, or for training for these operations;
- vehicles registered as Class H (school vehicle) or Class P (passenger bus); and
- vehicles registered as Class R (low-speed vehicle).

A separate program applies to certain commercial vehicles.

Maryland Strategic Energy Investment Program

Chapters 127 and 128 of 2008 created the Maryland Strategic Energy Investment Program and the implementing SEIF to decrease energy demand and increase energy supply to promote affordable, reliable, and clean energy. SEIF is primarily funded through the proceeds from the auction of carbon allowances to power plants under the Regional Greenhouse Gas Initiative. MEA administers SEIF.

State Fiscal Effect:

New Fee and Associated Strategic Energy Investment Fund Revenues and Expenditures

MVA advises that approximately 1,276,900 vehicles are exempt from VEIP, which includes vehicles in counties that do not require VEIP inspections. However, that figure includes Class L (historic) vehicles. While the bill *explicitly* subjects vehicles with a model year of 1976 or earlier to the \$14 fee, other Class L (historic) vehicles newer than those model years are not subject to the fee.

MVA estimates that approximately 70,700 registrations annually are Class L (historic) vehicles. Some portion of those vehicles (*i.e.*, those with a model year of 1976 or earlier) are assumed to be subject to the \$14 fee under the bill. The exact percentage of Class L (historic) vehicles that have a model year of 1976 or earlier is not known at this time; however, vehicles of those model years are assumed to comprise a relatively small portion of all Class L (historic) vehicles. Therefore, this analysis assumes that the vast majority of those registrants are not subject to the bill's \$14 fee.

For illustrative purposes only, special fund revenues for SEIF increase by approximately \$8.6 million in fiscal 2024 and by \$11.5 million in subsequent years under the following assumptions:

- as many as 885,200 registered vehicles may be subject to the new fee annually, which includes one-half of the exempt vehicles noted by MVA above (including historic vehicles), another 62,000 vehicles registered to seniors and waived from VEIP under low-mileage provisions, and new vehicles within the first three years of registration;
- however, as only 7,100 of the Class L (historic) vehicles have a model year of 1976 or earlier (approximately 10% and are explicitly subject to the \$14 biennial fee under the bill), approximately 821,600 registered vehicles are likely subject to the fee each year;
- MVA charges the \$14 fee at the same time as registration renewal for registrations subject to the new fee beginning on the bill's effective date;
- a small portion (25%) of eligible registrations due for renewal in fiscal 2024 renew prior to the bill's October 1, 2023 effective date and, thus, do not pay the \$14 fee until subsequent renewal in fiscal 2026; and
- the total number of vehicles subject to the fee remains constant over a five-year period.

SEIF expenditures are assumed to increase correspondingly for the purposes specified by the bill. MEA can administer the additional funds with existing budgeted resources.

It is possible that the Maryland Transit Administration could be eligible for some of this funding to purchase electric transit buses and/or expand electric vehicle infrastructure.

Mailing Costs

MVA advises that computer reprogramming costs can be made with existing resources. Additionally, MVA indicates that it must mail payment notices to most vehicle owners subject to the new fee (a portion of owners already receive regular notices from MVA regarding the VEIP exemption; additional mailings are unnecessary for those registrants). Under the illustrative scenario described above, TTF expenditures increase by about \$268,300 in fiscal 2024 and by about \$357,800 in subsequent years for additional mailings only. Because the bill does not allow MVA to recover its costs from the revenue it collects pursuant to the bill, any such expenditures are assumed to be incurred by TTF.

Effect of Recent Regulatory Changes

As noted above, regulations that took effect in January 2023 made significant changes to VEIP and established several new exemptions, including an additional three-year

exemption for new vehicles (*i.e.*, a total six-year exemption for a vehicle purchased new with no previous owner). Thus, beginning in early 2023, additional vehicles are exempt, meaning the above estimate understates the total number of vehicles subject to the new fee. Likewise, the estimate understates the impact on TTF mailing expenditures, as additional notices would need to be distributed. While the Department of Legislative Services (DLS) acknowledges the understatement of the above estimates, DLS also notes that absent actual experience under the new regulations, the extent to which fee revenues collected under the bill and MVA's mailing costs will increase is unknown.

Local Fiscal Effect: Fire apparatus, rescue apparatus, and ambulances registered as emergency vehicles and owned or leased by political subdivisions are subject to the \$14 fee. Accordingly, local expenditures increase minimally beginning in fiscal 2024.

Certain projects funded through the new fee may benefit local governments, assuming they are authorized as eligible recipients. For example, the purchase of electric transit and school buses would result in cost savings for local governments and local school systems.

Small Business Effect: The bill requires MEA to use the new fee revenues to incentivize and purchase electric vehicles and to expand electric vehicle infrastructure. Therefore, any small businesses that are involved in those industries may be eligible to receive program funding.

Additional Information

Prior Introductions: Similar legislation has been introduced within the last three years. See SB 104 and HB 46 of 2022.

Designated Cross File: None.

Information Source(s): Maryland Department of the Environment; Maryland Department of Transportation; Maryland Energy Administration; Department of Legislative Services

Fiscal Note History: First Reader - February 8, 2023
km/lgc

Analysis by: Eric F. Pierce

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