

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE FISCAL NOTE**

BILL NUMBER: HB 969 (Fifth Edition)

SHORT TITLE: Air Quality/Motor Vehicle Inspection Fees

SPONSOR(S): Rep. Hackney

	FISCAL IMPACT				
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2001-02</u>	<u>FY 2002-03</u>	<u>FY 2003-04</u>	<u>FY 2004-05</u>	<u>FY 2005-06</u>
<u>Div. of Air Quality</u>					
REVENUES	\$1,065,706	\$1,385,647	\$1,860,157	\$2,364,524	\$2,936,025
EXPENDITURES	\$1,696,839	\$1,754,678	\$1,945,957	\$2,256,529	\$2,107,686
Cash Balance*	\$307,800	(\$61,231)	(\$147,031)	(\$39,036)	\$789,303
*Starts with a cash balance \$938,933. End of year cash balances are carried forward. Details are shown on page 6. Revenues and expenditures are for the total program.					
POSITIONS:	1	2	2	2	
<u>DMV Program</u>					
REVENUES	\$6,132,178	\$7,141,413	\$8,299,162	\$10,549,414	\$13,099,190
EXPENDITURES	\$5,038,507	\$7,094,579	\$9,515,969	\$11,265,700	\$12,670,645
Cash Balance*	\$1,885,671	\$1,932,504	\$715,697	(\$588)	\$427,957
*Starts with a cash balance of \$792,000. End of year cash balances are carried forward. Details are shown on pages 7-8. Revenues and expenditures are for the total program.					
POSITIONS:	1	40	34	23	18
<u>Telecommunications Fee</u>					
Receipts/Expend.	\$2,445,883	\$7,685,571	\$11,885,270	\$12,135,430	\$12,392,113
<u>Highway Trust Fund</u>					
Repayment Fee Receipts	\$541,588	\$159,882	\$429,267	\$545,659	\$677,544
Loan Balance	\$1,658,412	\$1,498,530	\$1,069,263	\$523,604	(\$153,540)
These receipts repay a \$2.2 million loan from the Highway Trust Fund. The balance (plus interest) will be paid by July 1, 2007.					
<u>Volunteer Rescue/</u>					
EMS Fund Revenues*	\$129,728	\$214,294	\$203,747	\$208,036	\$212,436
<u>Rescue Squad</u>					
Workers' Relief Fund Rev*	\$86,485	\$142,863	\$135,831	\$139,224	\$141,624
*These are incremental revenues based on the 20% increase in the payment.					

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED:

Department of Environment and Natural Resources, Division of Air Quality; Department of Transportation, Division of Motor Vehicles (DMV); Department of Insurance, Highway Fund.

EFFECTIVE DATE: Table 2 on page 4 summarizes the bill's fee changes.

BILL SUMMARY: Provides for the implementation of the Ambient Air Quality Improvement Act of 1999, as amended by SL 2000-134. Establishes a permanent telecommunications fee of \$1.75. Authorizes borrowing up to \$2.2 million from the Highway Trust Fund to pay monies owed to the current telecommunications provider and provides for repayment by July 1, 2007. Increases the "safety only" inspection and sticker fee from \$9.25 currently to \$10.45 on November 1, 2001 and to \$12.00 on January 1, 2003 and the "emissions and safety" fee from \$19.40 currently to \$26.00 on November 1, 2001. (See page 4, Table 2 for details on these fee changes.) Adds new sections establishing a civil penalty schedule for violations of the emissions and safety inspection statutes. Requires a study of the benefits and costs of the safety inspection program.

ASSUMPTIONS AND METHODOLOGY:

Background: Currently, a "safety-only" inspection is required in 91 counties and an "emissions and safety" inspection is required in nine counties. In 1999, the General Assembly expanded the Motor Vehicles Emissions Inspection and Maintenance Program (I&M) from the current nine participating counties to an additional 39 counties to be phased in over a three-year schedule beginning in July 2003. At the same time, the General Assembly changed the type of test required for emissions inspections from the tailpipe (or "idle") test to an on-board diagnostic (OBD) test beginning in July 2002. This newer test can only be performed on cars manufactured from 1996 on that are equipped with the OBD technology. During the expansion to the additional counties and transition to the new OBD test, the idle test will be retained in the original nine counties only and will be ended on December 31, 2005. The bill exempts vehicles greater than 25 years old from the idle test.

The following chart lists the counties and the date they will be included in the program.

Emissions and Maintenance Inspection Program Expansion Schedule for OBD Technology						
Original Counties*	Expansion Counties		Expansion Counties		Expansion Counties	
July 1, 2002	July 1, 2003	Jan. 1, 2004	July 1, 2004	Jan. 1, 2005	July 1, 2005	Jan. 1, 2006
Cabarrus Durham Forsyth Gaston Guilford Mecklenburg Orange Union Wake	Catawba Cumberland Davidson Iredell Johnston Rowan	Alamance Chatham Franklin Lee Lincoln Moore Randolph Stanley	Buncombe Cleveland Granville Harnett Rockingham	Edgecombe Lenior Nash Pitt Robeson Wayne Wilson	Burke Caldwell Haywood Henderson Rutherford Stokes Surry Wilkes	Brunswick Carteret Craven New Hanover Onslow

* Fee increase goes into effect on November 1, 2001

Revenue Impact: The increased revenues resulting from this bill are the result of the increase in the number of vehicles inspected as the program expands from nine to 48 counties and the increase in fees that the Division of Air Quality (DAQ) and the Division of Motor Vehicles (DMV) receive to develop the infrastructure for that expansion. The negative balances for DAQ shown for several years are relatively small, less than 10% of program costs. However, in the years after Fiscal Year 2005-06 the fees in the bill could be generating more funds than are required. Given the difficulty of forecasting these cash flows, the General Assembly may wish to revisit the program on a regular basis to determine if the fee structure created by the bill is generating too much or too little in revenues.

Section 1 of the bill creates a Telecommunications Account to pay for the computers, software, and telecommunications services used by the inspection stations to implement the OBD inspection. Currently, stations performing an emissions inspection are required to maintain a dedicated phone line to comply with the DMV registration denial program. DMV has paid these telecommunications costs to the telecommunications provider from federal funds. However, those funds were depleted at the end of February. By October 31, 2001 the balance owed to the telecommunications services provider is expected to be almost \$2.2 million. To pay this amount the bill authorizes borrowing up to \$2.2 million from the Highway Trust Fund and creates a Highway Trust Fund Repayment Fee to repay the Highway Trust Fund with interest. Full repayment is expected by July 1, 2007.

Forecasting the number of vehicles inspected and the resulting revenues is complex. In the 39 expansion counties only 1996 and newer vehicles will be tested for emissions, while in the nine current emission counties all vehicles newer than 25 years old will be tested (vehicles earlier than 1995 vehicles with the current tail-pipe test and 1996 and newer with the new OBD test) through the end of the year 2005. At that time the tail-pipe test will be ended in the nine original emission counties and only OBD testing will be used and only 1996 and newer vehicles will be tested. Also, as the number of emissions inspections increases through expansion, the number of safety-only inspections will decrease. The forecast of the number of vehicles by year and category was developed with input from DAQ, DMV, and the Fiscal Research Division and is shown in Table 1.

Table 1

Number of Safety-Only and Safety and Emissions Tests					
	FY01-02	FY02-03	FY03-04	FY04-05	FY05-06
Safety-Only	4,424,910	4,519,979	3,929,803	3,296,802	2,564,245
Safety and Emissions	2,096,471	2,131,765	2,861,780	3,637,729	4,516,962
Total	6,521,381	6,651,744	6,791,583	6,934,531	7,081,207

The fee schedules incorporated in the bill are shown in Table 2.

Table 2
Emissions/Safety
Inspection

	Current	1-Nov-01	1-Jan-02	1-Jan-03	1-Jul-07
Service Station Fee	\$17.00	\$19.50	\$19.50	\$19.70	\$19.70
Highway Fund				\$0.55	\$0.55
DMV Emissions Program	\$1.80	\$2.55	\$3.80	\$2.90	\$3.00
Division of Air Quality	\$0.35	\$0.40	\$0.65	\$0.65	\$0.70
Volunteer Rescue/EMS	\$0.15	\$0.15	\$0.18	\$0.18	\$0.18
Rescue Squad Relief	\$0.10	\$0.10	\$0.12	\$0.12	\$0.12
Telecommunications Fund		\$1.75	\$1.75	\$1.75	\$1.75
Payback Highway Trust Fund		\$1.55	\$0.00	\$0.15	0
TOTAL	\$19.40	\$26.00	\$26.00	\$26.00	\$26.00

Safety Inspection

	Current	1-Nov-01	1-Jan-03
Service Station Fee	\$8.25	\$9.40	\$9.40
Highway Fund	\$0.75	\$0.75	\$0.55
Volunteer Rescue/EMS	\$0.15	\$0.18	\$0.18
Rescue Squad Relief	\$0.10	\$0.12	\$0.12
Telecommunications Fund			\$1.75
TOTAL	\$9.25	\$10.45	\$12.00

Division of Air Quality: The Division of Air Quality’s (DAQ) primary role in the Motor Vehicles Emissions Inspection and Maintenance Program (I&M) includes developing emissions inspection equipment/analyzer specifications, certifying new and modified analyzers, troubleshooting hardware and software problems, answering public inquiries about inspections, and auditing the program to determine its effectiveness. (EPA regulations require that the program administrator, DMV, be audited by an outside entity, a role that DAQ fills.) Currently, the Division of Air Quality receives \$0.35 from each emissions and safety inspection sticker issued in the nine participating counties. The revenue generated from the inspection sticker fee supports eleven positions and three outside contracts related to mobile source air pollution.

As the program grows from 9 counties to 48, the number of cars being inspected is estimated to increase from approximately 2 million to 4.5 million cars. The number of inspection stations, inspectors and analyzers will grow proportionally. To assist with the expansion of the motor vehicle emissions program, this bill increases DAQ’s portion of the sticker fee to \$0.40 and then \$0.65, an eighty-five percent increase. This increase will support the addition of 7 new positions to be phased in as the program expands. The fee increase will also support a number of time limited contracts including: 1) a public outreach campaign to raise awareness about the relationship between air pollution, vehicles’ emissions and the new OBD technology, 2) car care clinics to familiarize car owners with

the OBD technology prior to the implementation of the new test, and 3) auto mechanic training at community colleges to prepare mechanics on how to repair a car that fails the OBD emissions test. Each of these expansion items is explained in more detail below:

New Positions:

The Office of State Personnel has identified Environmental Engineers as a hard to recruit position, so the Environmental Engineer II position is proposed at the midpoint of the salary range. The Environmental Engineer position is assumed to be effective January 1, 2002. The 6 Environmental Technician positions are proposed at the starting salary and are phased in over the first three years of the I & M expansion beginning in 2002-03 fiscal year.

- *1 Environmental Engineer II* – Duties include oversight of I&M expansion, including the development of emissions program policy, determining the effectiveness of emissions technology and program, technical review of proposed changes in technology, software and hardware, and quality control efforts.
- *6 Regional Environmental Technician III* – These six positions would be identical to one that DAQ’s budget currently supports in the Raleigh office. The new positions would be located in each of the regional offices in the expansion counties. Duties include auditing the program for compliance and effectiveness, and serving as the local liaison with testing and repair industries.

New Contracts:

- *Mechanic Training at Community Colleges* – Currently, all vehicle emissions inspectors are required to take an 8-hour continuing education course to become certified to perform an emissions inspection. To help inspectors fulfill this requirement, 11 community colleges currently offer a continuing education course related to emissions testing procedures using the idle test. Because the OBD technology is relatively new and auto mechanics may be unfamiliar with the emission failure codes and the types of repairs necessary to fix an emissions problem, DAQ proposes to add to each of these existing courses a new section to train automotive technicians on the use of OBD technology to diagnose and repair emissions problems. DAQ also proposes to expand these repair courses to additional community colleges in the expansion counties. The Community College System Office estimates that it would cost approximately \$25,000 to update an existing course. This fiscal note assumes that each emissions county with a community college will offer a continuing education emissions course related to the required certification and that the repair portion of the course would always be added after the certification course was in place.
- *Car Care Clinics* – As part of a public outreach effort prior to starting the official OBD testing, DAQ, operating through private inspection stations, would perform unofficial tests free of charge and diagnostics for failing cars. DAQ would pay a participating inspection station \$25 per car inspected and an hourly fee of \$50 to diagnose failing cars and provide repair advice. Total cost estimate is based on testing 13,000 cars with an approximate failure rate of five percent. This fiscal note assumes that car owners in the expansion counties who are unfamiliar with the vehicles emission program will be more likely to take advantage of this service and thus more money is budgeted for this item in the expansion counties.
- *Public Outreach Campaign* – EPA requires DAQ to include in its State Implementation Plan (SIP) a public awareness plan for informing the public on an

ongoing basis throughout the life of the I&M program of the air quality problem. At a minimum the plan must include the following: requirements of Federal and State law, the role of motor vehicles in the air quality problem, the need for and benefits of an inspection program, how to maintain a vehicle in low emission condition, how to find a qualified repair technician and the requirements of the I&M program (40 CFR § 51.368).

Below is a chart that outlines DAQ's current I&M Program revenues and expenditures as well as the additional revenue generated by the fee increase and the proposed new expenditures. This fiscal note assumes that DAQ will spend down its existing cash balance to support its expansion efforts.

Division of Air Quality - I&M Program Revenues and Expenditures					
	Estimate	Estimate	Estimate	Estimate	Estimate
	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06
Number of emissions inspection	2,096,471	2,131,765	2,861,780	3,637,729	4,516,962
Cash Balance from Previous FY	938,933	307,800	-61,231	-147,031	-39,036
Revenues					
Current DAQ revenue	733,765	746,118	1,001,623	1,273,205	1,580,937
Additional DAQ revenue	331,941	639,530	858,534	1,091,319	1,355,089
Total DAQ Revenue (\$0.65)	1,065,706	1,385,647	1,860,157	2,364,524	2,936,025
Current Expenditures					
Current Salaries & Benefits	536,977	563,826	591,454	621,026	652,078
Current Operating	159,154	162,178	165,745	169,723	174,136
Current Contracts	124,347	66,000	68,000	70,000	72,000
Total Current Expenditures	820,478	792,004	825,199	860,749	898,214
Expansion Expenditures					
Positions					
1 Env Engineer II (salary & benefits)	34,061	70,783	74,252	77,964	81,862
6 Env Technician (salaries & benefits)		67,892	142,436	224,340	235,554
Nonrecurring Equipment Costs	7,500	15,000	15,000	15,000	
Associated Operating Costs	3,500	21,399	35,770	50,176	57,456
Contracts					
Mechanic Training @ Comm College	200,000	125,000	225,000	250,000	125,000
Car Care Clinics	31,300	62,600	78,300	78,300	109,600
OBD Advertising	600,000	600,000	550,000	700,000	600,000
Total Expansion Expenditures	876,361	962,674	1,120,758	1,395,780	1,209,472
Change in Cash Balance	-631,133	-369,031	-85,800	107,995	828,339
Cash Balance Availability	307,800	-61,231	-147,031	-39,036	789,304

The bill increases DAQ's portion of the emission inspection sticker \$0.35 to \$0.40 and then to \$0.65. The negative cash balances shown for DAQ through FY 2005 are relatively small (less than ten percent of total program costs).

Beginning in fiscal year 2006, DAQ no longer has a negative cash balance. At this point, the fee increase times the number of new cars required to be inspected generates enough revenue to cover expenditures. In the years after 2006, once the expansion contracts have ended, it is estimated that revenues will exceed expenditures by approximately \$1.5 million. DAQ does have the authority to use revenue generated from the I&M sticker fee to support expenditures not related to the I&M Program. Specifically, DAQ has the authority to use I&M fees to support an air pollution control program for mobile sources (G.S. 143-215.3A(b1)).

Division of Motor Vehicles: The Division of Motor Vehicles is responsible for administering the safety inspection and the emissions inspection programs (G.S. 20-183.6A). As the number of emissions counties increases, the Division expects the number of emissions inspection stations to increase by approximately 3,800. The Division’s added personnel costs, phased in over five years, are generally to administer this larger program. Other expansion expenses result from the adoption of the OBD test and related computer hardware and software and letters to additional noncomplying motorists.

The Division plans to add 116 positions over the next five years, as follows:

Position	FY01-02	FY02-03	FY03-04	FY04-05	FY05-06	Total
Pay Grade 70 Inspector		15	12	8	4	39
Pay Grade 66 I/M Auditor		20	17	10	14	61
Pay Grade 57 Processing Assistant		4	3	5		12
Pay Grade 68 Hearing Officer			2			2
Programmer	1					1
Pay Grade 67 Electronic Technician		1				1
Total	1	40	34	23	18	116

DMV costs are summarized below:

	<u>FY01-02</u>	<u>FY02-03</u>	<u>FY03-04</u>	<u>FY04-05</u>	<u>FY05-06</u>
New Personnel	47,488	1,831,502	3,499,578	4,761,189	5,869,496
Recurring and non-recurring office and equipment	3,557	879,448	1,147,947	1,242,336	1,435,782
<u>Program Expenses</u>					
Letters to non-complying motorists, consumer Hot-Line		415,587	541,991	687,020	801,160
Consultant/Technical Writer	57,782	59,515	61,301	63,140	65,034
Convert mainframe program to OBD	170,000				
MCI OBD Conversion - hardware	500,000				
MCI OBD Conversion - software	500,000				
License Plates and Stickers		1,747	37,887	76,300	119,826
Safety Investigations		81,780	153,178	220,226	220,226
Tag Agent Fees for Reg. Denial			100,000	100,000	100,000
Tag Agent Sticker Sales			72,587	135,959	
Covert Visual Equipment	9,680				
Cost of Existing Program	3,750,000	3,825,000	3,901,500	3,979,530	4,059,121
TOTAL EXPENSES	5,038,507	7,094,579	9,515,969	11,265,700	12,670,645

Some of the major items of expenditure are the computer expenses, which are for converting the statewide system to the OBD test.

Telecommunications Fee: In the current program, the cost of computer communications between the stations and the State has been paid by federal funds (which have now run out) or by existing cash balances. The bill establishes Telecommunications Fee of \$1.75 as part of the cost of the sticker. This is intended to pay the total cost, including hardware, software, and communications costs, for the stations to interface with the State. Thus, the equipment cost for stations participating in the OBD program in the expansion counties will be significantly lower than for those stations that have been doing tailpipe tests in the existing emissions counties.

Highway Fund: Under current law, the Highway Fund receives \$.75 for each safety-only inspection and nothing for emission/safety inspections. The total is about \$3.5 million per year. Increasing the number of emission/safety inspections and reducing the number of safety-only inspections would reduce receipts of the Highway Fund. The bill holds the Highway Fund harmless by establishing a \$.55 fee on both inspection stickers as of January 1, 2003. As a result, no fiscal impact is shown for the Highway Fund.

Department of Insurance – Volunteer Rescue/EMS Fund (G.S. 58-87-5) and Rescue Squad Workers’ Relief Fund (G.S. 58-88-1 through 30): The Volunteer Rescue/EMS Fund currently receives \$.15 of each vehicle inspection. This would rise to \$.18 on November 1, 2001 for the safety inspection and on January 1, 2001 for the safety and emissions inspection. The Rescue Squad Workers’ Relief Fund currently receives \$.10 of

each vehicle inspection. This would rise to \$.12 on November 1, 2001 for the safety inspection and on January 1, 2002 for the safety and emissions inspection. Currently, the Volunteer Rescue/EMS Fund receives about \$1 million and the Rescue Squad Workers' Relief Fund about \$700,000. Each of these funds has generally had more eligible requests for assistance than they have been able to accommodate with available funds.

Civil Penalties: No estimate of the fiscal impact of the bill on the total of civil penalties collected is available.

TECHNICAL CONSIDERATIONS: Given the uncertainty of revenue and expenditure forecasts for this greatly expanded program, the General Assembly may wish to reexamine the program's financial status on a regular basis.

FISCAL RESEARCH DIVISION 733-4910

PREPARED BY: Bob Weiss and Jennifer Hoffmann

APPROVED BY: James D. Johnson

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