

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE FISCAL NOTE**

BILL NUMBER: HB 969 (Fourth Edition) REVISED

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	\$622,714	\$633,197	\$850,034	\$1,080,514	\$1,341,672
EXPENDITURES	\$913,213	\$961,184	\$1,117,634	\$1,390,303	\$1,204,303
Cash Balances*	\$505,559	\$124,299	\$ 23,205	\$112,714	\$917,153
*Cash balances includes a beginning cash balance of \$890,036 as of June 30, 2001 plus revenues minus expenditures for the <u>existing</u> program (see page 6) plus revenues minus expenditures for the expansion program, shown above.					
POSITIONS:	1	2	2	2	
<u>DMV Program</u>					
REVENUES	\$6,330,928	\$6,437,507	\$8,642,010	\$10,985,222	\$13,640,332
EXPENDITURES	\$3,529,289	\$8,656,961	\$8,695,040	\$12,074,431	\$12,143,284
Cash Balances*	\$2,801,639	\$582,185	\$529,155	(\$560,054)	\$936,994
*Starts with a cash balance of zero. End of year cash balances are carried forward to subsequent years.					
POSITIONS:	1	64	46	44	
<u>Telecommunications Fee</u>					
Receipts	\$3,632,500	\$7,648,633	\$11,835,687	\$12,072,400	\$12,313,848
Expenditures	\$3,632,500	\$7,648,633	\$11,835,687	\$12,072,400	\$12,313,848
<u>Volunteer Rescue/</u>					
EMS Fund	\$195,019	\$198,919	\$202,898	\$206,956	\$211,095
Rescue Squad					
Workers' Relief Fund	\$130,013	\$132,613	\$135,265	\$137,970	\$140,730
Civil Penalties	No Estimate Available				
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: Sections 1 and 4 on the first day of the month that follows by more than 15 days the month in which this act becomes law. Sections 2, 3.1, 3.6, 5, 6, 8, 10, and 11 on October 1, 2001. Sections 7, 9, and 12 on January 1, 2002. Sections 3.2 and 3.3 on January 1, 2003. Sections 3.5, 13, and 14 when the bill becomes law.

BILL SUMMARY: Provides for the implementation of the Ambient Air Quality Improvement Act of 1999, as amended by SL 2000-134. The bill creates a telecommunications fee of \$1.75 and increases the “safety only” inspection and sticker fee from \$9.25 currently to a maximum of \$14.45 on October 1, 2001 and to a maximum of \$16.00 on January 1, 2003 and the “emissions and safety” fee from \$19.40 currently to a maximum of \$33.45 on October 1, 2001 and a maximum of \$34.00 on January 1, 2003. (See page 4, Table 2 for details on these fee changes.) Adds two new sections establishing a civil penalty schedule for violations of the emissions and safety inspection statutes.

ASSUMPTIONS AND METHODOLOGY:

NOTE: The revised fiscal note considers DMV’s proposed new staffing plan of 7/25/01, which reduces the number of law enforcement personnel and increases civilian staff.

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 October 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 estimates shown on page 1 for DMV indicate a negative cash balance in Fiscal Year 2004-05, providing DMV less funding than it needs to administer the program. However, in the years after Fiscal Year 2005-06 the program 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 are no longer available. As of June 30, 2001 the balance owed to the telecommunications services provider was over \$1 million and it is currently rising by \$272,000 per month. The fees set in the bill would be sufficient for future charges but are not sufficient to cover these past charges.

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	2,075,714	2,110,658	2,833,446	3,601,712	4,472,240
Total	6,500,624	6,630,637	6,763,249	6,898,514	7,036,485

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

Table 2

Fees for Safety-Only Inspections				
Fee	Current		10/01/01	1/01/03
Service Station Fee	\$8.25		<i>Max of \$13.40</i>	Max of \$13.40
Highway Fund	0.75		0.75	0.55
Volunteer Rescue/EMS Fund	0.15		0.18	0.18
Rescue Squad Workers' Relief Fund	0.10		0.12	0.12
Telecommunications Fund				\$1.75
Total	\$9.25		<i>Max of \$14.45</i>	<i>Max of \$16.00</i>
Fees for Emissions and Safety Inspections				
	Current	Month after enactment	10/01/01	1/01/03
Service Station Fee	\$17.00	\$17.00	<i>Max of \$27.70</i>	Max of \$27.70
Highway Fund				0.55
DMV Emissions Program	1.80	1.80	3.05	3.05
Division of Air Quality	0.35	0.35	0.65	0.65
Volunteer Rescue/EMS Fund	0.15	0.15	0.18	0.18
Rescue Squad Workers' Relief Fund	0.10	0.10	0.12	0.12
Telecommunications Fund		1.75	1.75	1.75
Total	\$19.40	\$21.15	<i>Max of \$33.45</i>	<i>Max of \$34.00</i>

Italics show changes in fees

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 reported hardware and software problems, answering public inquiries about inspections, and auditing the program to determine its effectiveness. (Note: 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 \$0.65, 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 6 Environmental Technician positions are proposed at the starting salary.

- *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. These 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-on to each of these existing courses a new section to train automotive technicians *how to use the 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-on 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* – In October 2001, the fee charged for a safety and emissions inspection in the current nine counties will increase from \$19.40 to a

maximum of \$33.45. Beginning in July 2003, car owners in the expansion counties who currently pay \$9.25 for a safety inspection will begin to pay a maximum of \$34.00 for the combined safety and emissions inspection. To prepare the driving public for this fee increase and to help educate them about the relationship between air pollution and their vehicles' emissions, DAQ proposes to conduct an intensive public outreach campaign to begin four months prior to the implementation of the emissions testing with the OBD technology and to continue for a full 12 months in each of the participating counties.

Below is a chart that outlines both 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 FY 2001-02	Estimate FY 2002-03	Estimate FY 2003-04	Estimate FY 2004-05	Estimate FY 2005-06
Number of emissions inspection	2,075,714	2,110,658	2,833,446	3,601,712	4,472,240
Cash Balance from Previous FY	890,036	505,559	124,299	23,205	112,714
Revenues					
Current DAQ revenue (\$0.35/sticker)	726,500	738,730	991,706	1,260,599	1,565,284
Additional DAQ revenue (\$0.30/sticker)	622,714	633,197	850,034	1,080,514	1,341,672
Total DAQ Revenue (\$0.65)	1,349,214	1,371,928	1,841,740	2,341,113	2,906,956
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)	67,413	70,783	74,252	77,964	81,862
6 Env Technician (salaries & benefits)		66,402	139,312	219,415	230,385
Nonrecurring Equipment Costs	7,500	15,000	15,000	15,000	
Associated Operating Costs	7,000	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	913,213	961,184	1,117,634	1,390,855	1,204,303
Change in Cash Balance	(384,477)	(381,260)	(101,093)	89,509	804,439
Cash Balance Availability	505,559	124,299	23,205	112,714	917,153

DAQ's portion of the emission inspection sticker is proposed to increase from \$0.35 to \$0.65. Using their existing cash balance of \$890,030 and the additional revenue generated from the fee increase, DAQ is able to cover all of its expenses in each of the next five years.

By fiscal year 2005, DAQ no longer has to spend down its cash balance to cover expenditures. The fee increase times the number of new cars required to be inspected is generating enough revenue to cover expenditures without using its cash balance. In fiscal year 2006, the amount of projected revenue generated exceeds the proposed expenditures by \$804,439. 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 four 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, advertising and promotion to inform motorists of the new requirements (required by EPA), and letters to additional noncomplying motorists.

The Division plans to add 155 positions over the next four years, as follows:

Position	FY01-02	FY02-03	FY03-04	FY04-05	Total
Pay Grade 73 Captain	0 <i>1</i>				0 <i>1</i>
Pay Grade 71 Lieutenant	0 <i>2</i>	0 <i>6</i>	0 <i>1</i>	0 <i>1</i>	0 <i>10</i>
Pay Grade 70 Inspector		15 <i>22</i>	12 <i>22</i>	12 <i>18</i>	39 <i>60</i>
Pay Grade 66 I/M Auditor		44 <i>26</i>	29 <i>22</i>	27 <i>20</i>	100 <i>68</i>
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 <i>4</i>	64 <i>59</i>	46 <i>48</i>	44	155

Note: **Numbers in bold are from the DMV staffing plan of July 25, 2001.** *The numbers in italics are the original staffing plan presented by DMV.*

Personnel costs for the 155 additional positions, including recurring and non-recurring office and equipment expenses, plus non-personnel expenses, are summarized below:

	FY01-02	FY02-03	FY03-04	FY04-05	FY05-06
Personnel Expenses	\$51,507	\$4,595,512	\$7,395,401	\$10,520,151	\$10,429,444
<u>Non-Personnel 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
Converting Existing Mainframe Program to OBD	\$170,000				
MCI OBD Conversion (hardware)	\$1,000,000				
MCI OBD Conversion (software)	\$2,000,000				
MCI Conversion (triggers)		\$3,000,000			
Advertising/Promotional	\$250,000	\$500,000	\$500,000	\$500,000	\$500,000
License Plates and Stickers		\$1,747	\$37,887	\$76,300	\$119,826
Safety Investigations		\$84,600	\$158,460	\$227,820	\$227,820
Total Non-Personnel	\$3,477,782	\$4,061,449	\$1,299,639	\$1,554,280	\$1,713,840
GRAND TOTAL	\$3,529,289	\$8,656,961	\$8,695,040	\$12,074,431	\$12,143,284

Some of the major items of expenditure include advertising and promotion (\$2,250,000), which is required by EPA, and computer expenses (\$6,170,000). The computer expenses are for converting the system to the OBD test and for implementing a system of “triggers.” The triggers analyze test data by station, mechanic, vehicle model, etc. and alert DMV to patterns that might indicate fraud or other problems (e.g. very high pass rates for particular stations or mechanics given the cars they test, sudden changes in passing rates, etc.).

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 creates a 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 and safety inspections. Increasing the number of emission and 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 October 1, 2001. The Rescue Squad Workers’ Relief Fund currently receives \$.10 of each vehicle inspection. This would rise to \$.12 on October 1, 2001. 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 a new program, the General Assembly may wish to reexamine the program’s financial status on a regular basis and to consider a temporary surcharge if revenues are inadequate and/or reducing some of the fees after start-up expenditures have been paid.

FISCAL RESEARCH DIVISION 733-4910
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