

BILL # SB 1317

TITLE: vehicle emission; in lieu fee

SPONSOR: Gerard

STATUS: As Amended by Senate Natural Resources, Agriculture and Environment

REQUESTED BY: Senate

PREPARED BY: Chris Earnest

FISCAL YEAR

	2001	2002	2003
REVENUES			
Arizona Clean Air Fund	\$ -0-	\$(6,050,000)	\$(12,100,000)

FISCAL ANALYSIS

Description

The bill as amended eliminates the fee in lieu of emissions inspection for new vehicles in Maricopa and Pima Counties effective January 1, 2002. The bill as introduced would have had a general effective date. Currently, owners of vehicles that are 5 years old or newer have the option of either completing the required emissions test or paying an "in-lieu" fee. Under current statute the in-lieu fee is \$25 in Maricopa County and \$9 in Pima County. These fees are paid with the vehicle registration and are deposited in the Arizona Clean Air Fund (ACAF). SB 1317 as amended eliminates the fees in both counties, as well as any emissions test for vehicles that are 5 year old or newer.

Estimated Impact

The ACAF impact is \$(6,050,000) in FY 2002. When the amended bill is implemented for a full year in FY 2003 the estimated impact is \$(12,100,000). These estimates represent lost revenue and interest to the ACAF due to the elimination of the in-lieu fee. In FY 2003, the only ACAF revenues remaining would be \$250,000 annually transferred from the Air Quality Fund. Because the amendment changed the effective date of the bill to January 1, 2002, in-lieu revenues will be sufficient to meet the following FY 2002 statutory requirements:

- ARS § 41-1516 currently requires that a portion of the in-lieu fees in calendar year 2001 be used to subsidize the emissions inspection fee from \$31.50 to \$25 in Maricopa County and from \$10 to \$9 in Pima County. It is estimated that \$3.6 million of in-lieu fees will be deposited in the Vehicle Emissions Inspection (VEI) Fund to provide for this subsidy in FY 2002. There are currently no provisions to subsidize the test in FY 2003.
- Laws 2000, 7th Special Session, Chapter 1 requires that through October 1, 2001, up to \$6.5 million from the ACAF be used for grants to replace or convert large diesel vehicles to operate on alternative fuels. It is estimated that ACAF will fund \$5.3 million of the diesel grants in FY 2001, leaving \$1.2 million to be funded in FY 2002.
- Laws 2000, Chapter 405 requires that the ACAF fund one-half of a \$500,000 hydrogen grant program in FY 2001 and FY 2002.

Under the bill as amended, however, funding for several discretionary ACAF grant programs is reduced. The programs include grants to counties, cities, school districts, and non-profit organizations. In FY 2002, revenues are reduced by \$(6,050,000) leaving \$1,294,900 for these discretionary items. When the bill is fully implemented in FY 2003, only \$250,000 will be available.

One key assumption in our analysis is that the in-lieu vehicle population will grow by 2% in FY 2001 and remain flat in FY 2002 and FY 2003. To the extent that the actual growth rate varies from this assumption, the cost estimate would change.

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Assumptions

In FY 2000 the ACAF received \$10.6 million of revenue from in-lieu fees. The JLBC Staff estimates that this amount will grow to \$11.7 million in FY 2001. This growth is the result of a higher in-lieu fees charged between July and December 2000. During those months, the Maricopa County fee increased from \$25 to \$31.50. The growth is also a result of an estimated 2% increase in vehicle population. In FY 2002 and FY 2003, the JLBC Staff estimates that revenues will remain at approximately \$11.7 million annually. SB 1317 as amended eliminates both the in-lieu revenue and the associated interest (estimated at \$400,000 annually) starting January 1, 2002. Because the amended bill is only effective for one-half of FY 2002, revenues and interest are reduced by one-half in that year leaving the impact at \$(6.0) million. In FY 2003, the full year impact of the bill is \$(12.1) million.

The table below displays the status of the ACAF under current law versus under SB 1317:

Arizona Clean Air Fund				
Status under Current Law versus SB 1317 as amended				
	FY 2002		FY 2003	
	Current Law	SB 1317	Current Law	SB 1317
Revenues				
Balance Forward	\$ 0	\$ 0	\$ 0	\$ 0
In-Lieu Fees	11,700,000	5,850,000	11,700,000	0
Air Quality Fund	250,000	250,000	250,000	250,000
Interest	400,000	200,000	400,000	0
Total Available	\$12,350,000	\$6,300,000	\$12,350,000	\$250,000
Expenditures				
<u>Grants</u>				
- Diesel Vehicles	1,155,100 ^{1/}	1,155,100 ^{1/}	0	0
<u>Transfers</u>				
- Emissions Test Subsidy	3,600,000 ^{2/}	3,600,000	0	0
<u>Other</u>				
- Hydrogen Demonstration	250,000 ^{3/}	250,000 ^{3/}	0	0
- Other Discretionary Items	7,344,900 ^{4/}	1,294,900 ^{4/}	12,350,000 ^{4/}	250,000
Total Expenditures	\$12,350,000	\$6,300,000	\$12,350,000	\$250,000
Ending Balance	\$0	\$0	\$0	\$0
^{1/} Laws 2000, 7th Special Session requires the Department of Commerce to fund \$6.5 million in grants to convert large diesel vehicles to an alternative fuel. This analysis assumes that \$5.3 of this amount will be provided in FY 2001 and that the remaining \$1.2 million will be funded in FY 2002. ^{2/} Original estimate of in-lieu fee allocation for emissions subsidy was \$2.7 million. Actual FY 2000 in-lieu revenue suggests this allocation may be approximately \$3.6 million. ^{3/} This amount is specified in Laws 2000, Chapter 405. ^{4/} Discretionary items include grants for public, city, county, school district, and non-profit alternative fuel delivery stations. Uses also include HOV lane signs, alt fuel training, and fund administration.				

Local Government Impact

Local Governments including cities, counties and school districts are eligible for alternative fuel grants under existing law. It is estimated that up to \$7.3 million in FY 2002 and \$12.35 million in FY 2003 could be granted to local governments. Under SB 1317 as amended however, only \$1.3 million would be available in FY 2002. In FY 2003, only \$250,000 would be available.

Amendments

The Senate Natural Resources, Agriculture and Environment Committee amended the bill by adding an effective date of January 1, 2002. The bill otherwise had a general effective date. The impact of the amendment was to reduce the FY 2002 cost by one-half, from \$(12.1) million to \$(6.05) million. Without the amendment, the ACAF would not have revenues to fully fund the emissions inspection subsidy, the remaining large diesel vehicle grants, and the hydrogen grant program in FY 2002. In addition, without the amendment, no monies would be available for any other discretionary grants.