



State of Oregon Department of Environmental Quality

# Draft Fiscal Impact Statement

## Vehicle Inspection Program Fee Increase and Updates 2020

### Fee Analysis

The Oregon Environmental Quality Commission approval of this rule proposal would increase existing fees. EQC authority to act on the proposed fees is ORS 468A.400.

#### Brief description of proposed fees

The cost of each certificate of compliance, including those issued at emission test stations and those issued through self-service and remote procedures increased by \$4.00, from \$21 to \$25 in the Portland Vehicle Inspection area and by \$5.00, (from \$10 to \$15) in the Medford-Ashland Vehicle Inspection Area on June 1, 2020, through a temporary rulemaking. The VIP 2020 Fee Increase and Update rulemaking would maintain the June 1, 2020, fee increases and also institute a \$5 increase, from \$15 to \$20, in the Medford-Ashland Vehicle Inspection Area on July 1, 2021.

Similarly, the cost of each Certificate of Compliance issued for on-site testing to an automobile dealership increased \$4.00, from \$26 to \$30 on June 1, 2020, through a temporary rulemaking. The VIP 2020 Fee Increase and Update rulemaking would also maintain the June 1, 2020, fee increases for on-site dealership testing.

#### Reasons

DEQ must raise fees to maintain support for the Vehicle Inspection Program. Oregon's vehicle inspection and maintenance program, VIP, is a fundamental pollution reduction strategy in DEQ's Clean Air Act required State Implementation Plan. Program expenses have been increasing over the past several biennia because of personnel costs such as cost of living increases, employees' step progression within a salary range, health insurance and other benefits. Program expenses began to exceed program revenue in the 2013 – 2015 biennium. Before the June 2020 temporary rulemaking, DEQ had not raised the fee for a certificate of compliance since 1997.

Through June 2015, the program had been able to continue to cover expenses, in spite of revenue shortfalls, by using technological advancements, efficiency gains and ending balances from previous biennia. To attain balanced budgets in the 2015-2017 and 2019-2021 biennia, the program cut 7 and 8 full time equivalent positions, respectively. DEQ expects the proposed fee increase to sustain the program without losing additional FTE through June 30, 2025.

## **Fee proposal alternatives considered**

An alternative to raising the fee is further reducing full time equivalent positions working in VIP. Reducing positions would have adverse impacts on service delivery, including customer service, increased wait times, reduced ability to respond to public inquiries, and reduced technical support for a variety of testing approaches in place. Collectively, the impacts undermine the ability for DEQ to operate a cost-effective Vehicle Inspection Program and protect public health and the environment from vehicle pollution.

## **Fee payers**

Fee payers affected by these proposed rule revisions and fee increase are motorists, businesses that own vehicles, and auto dealerships participating in on-site testing. Private business and public agency fleets pay a fee for each certificate of compliance and a licensing fee, but DEQ is not proposing to revise rules pertaining to private and public agency fleet fees.

## **Affected party involvement in fee-setting process**

DEQ convened an advisory committee of affected parties to assist DEQ in evaluating the fiscal impacts of the increased fees.

## **Summary of impacts**

Motorists whose cars are registered in the Portland Vehicle Inspection area will continue to pay a \$25 fee every two years for a certificate of compliance. Before the temporary fee increase adopted in May 2020, this fee was \$21.

Motorists whose cars are registered in the Medford Vehicle Inspection area will continue to pay a \$15 fee every two years for a certificate of compliance through June 2021. The Medford-area fee will increase to \$20 every two years on July 1, 2021. Before the temporary fee increase adopted in May 2020, Medford-area motorists paid a \$10 fee every two years.

Auto dealerships in the Portland Vehicle Inspection areas participating in on-site testing will continue to pay \$5 more than the Portland area fee for a certificate of compliance, for a total fee of \$30. Before the temporary fee increase adopted in May 2020, auto dealerships participating in on-site testing paid a \$26 fee.

## **Fee payer agreement with fee proposal**

DEQ will not ask fee payers and other stakeholders to agree with the proposal, but will consider advisory committee input and comments received during the public comment period in developing final rule revisions to present to the Environmental Quality Commission.

## How long will the current fee sustain the program?

The fee in place before the June 2020 temporary rulemaking sustained the program through June 30, 2019. Although, as noted earlier in this document, DEQ began experiencing revenue shortfalls in the 2015 – 2017 budget. DEQ has also relied on technological advancements, efficiency gains, ending balances, and FTE reductions to attain balanced budgets.

Current Fees		
Program costs covered by fees	\$23,817,909	100%
Program costs covered by General Fund	\$0	0%
Fee Last Changed	1997	

Table note: From 2019-2021 Legislatively Adopted Budget.

## How long will the proposed fee sustain the program?

DEQ projects that the proposed fee would sustain the program through the 2023 - 2025 biennium. The table below shows the effect of the proposed fees on the current biennium budget.

Proposed Fees		
Expected change in revenue (+/-)	\$2,244,092	9.8%
Effective date of temporary fee increase	June 1, 2020	

Table note: Effect on 2019-2021 Legislatively Adopted Budget.

## Transactions and revenue

Biennium	Number of fee payers	Impact on revenue (+/-)	Total revenue (+/-)
Current biennium	1,136,738	\$2,244,092	\$25,019,918
Next biennium	1,136,734	\$4,488,184	\$27,264,000

Table note: Fee payer estimates are based on DMV's projections of registered vehicles due for renewal in the Portland and Medford vehicle inspection areas.

## **Fee schedule**

Cost for a certificate of compliance would increase to these maximum amounts and according to the following schedule:

### **Portland Vehicle Inspection Area**

\$25 (maintain the June 1, 2020 temporary fee increase)

### **Medford Vehicle Inspection Area**

\$15 (maintain the June 1, 2020 temporary fee increase)

\$20 effective July 1, 2021

### **On-site Testing Auto Dealerships**

\$30 (maintain the June 1, 2020 temporary fee increase)

# Statement of fiscal and economic impact

## Fiscal and Economic Impact

Increasing fees for vehicle inspection certificates of compliance would benefit DEQ by maintaining financial support for the Vehicle Inspection Program. The fee change will increase costs for entities that must obtain a certificate of compliance for their vehicles.

## Statement of Cost of Compliance

### State and federal agencies

DEQ will benefit from this fee increase by maintaining financial support for the Vehicle Inspection Program. DEQ will be able to maintain staffing levels that support good customer service.

This fee increase will not directly affect other state or federal agencies because DEQ is not proposing to increase the allowable maximum certificate of compliance fee for public agency fleets. DEQ is not proposing to increase the cost of a license issued to a public agency fleet vehicle inspector.

The State Department of Transportation, Division of Motor Vehicles will benefit from the proposed fee increase. Currently, DEQ completes vehicle registration renewals on DMV's behalf for approximately 60% of vehicles registered within DEQ testing areas. DEQ's ability to continue this service is contingent on stable funding and greatly reduces the volume of visits at DMV field offices.

### Local governments

For local governments, the fee increase will have no effect because DEQ is not proposing to increase the allowable maximum certificate of compliance fee for public agency fleets. DEQ is not proposing to increase the cost of a license issued to a public agency fleet vehicle inspector.

### Public

Continuing the increased cost of a certificate of compliance will affect members of the public and businesses whose vehicles are registered in the Portland and Medford vehicle inspection areas. Entities with vehicles registered in the Portland vehicle inspection area will continue to pay \$25 every two years for a certificate of compliance. Entities with vehicles registered in the Medford vehicle inspection area will continue to pay \$15 every two years until July 1, 2021, after which Medford motorists will pay \$20 every two years.

DEQ does not have data to estimate the fiscal impact on an individual member of the public, but acknowledges that the VIP fee increase may have a greater impact on certain populations. DEQ reviewed demographic information available through U.S. EPA's EJ Screen tool.<sup>1</sup> DEQ

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<sup>1</sup> <https://ejscreen.epa.gov>

reviewed EJ Screen standard reports<sup>2</sup> from areas within a 7-mile radius of the 7 VIP Clean Air Stations. DEQ assembled demographic excerpts<sup>3</sup> from those reports in the following table.

7 mile radius from	% low income	% minority	% linguistically isolated	% over age 64
Northeast VIP Station	33	28	4	13
Sunset VIP Station	25	39	5	10
Gresham VIP Station	37	34	6	13
Sherwood VIP Station	20	23	3	14
Clackamas VIP Station	28	24	4	14
Scappoose VIP Station	20	9	1	18
Medford VIP Station	41	23	2	19

DEQ does not have data to estimate how an increased fee paid by on-site testing auto dealerships will affect the costs of vehicles. DEQ acknowledges a potential indirect impact on members of the public who purchase vehicles from auto dealerships that participate in mobile on-site testing.

### **Large businesses - businesses with more than 50 employees**

Auto dealerships that participate in the VIP on-site testing program will continue to pay \$30 for each certificate of compliance. Approximately 35 dealerships currently participate in the VIP mobile on-site testing program and DEQ estimates fewer than five, if any, of the dealerships are large businesses.

Businesses that own vehicles in the Portland vehicle inspection area – but not licensed to complete vehicle inspection and maintenance testing as a private fleet - will continue to pay \$25 for each certificate of compliance.

Businesses that own vehicles in the Medford vehicle inspection area – but not licensed to complete vehicle inspection and maintenance testing as a private fleet - will continue to pay \$15 for each certificate of compliance and beginning July 1, 2021, will pay \$20 for each certificate of compliance.

### **Small businesses – businesses with 50 or fewer employees**

DEQ expects that fiscal effects on small businesses will be similar to the impact on large businesses. According to the Oregon Secretary of State Office of Small Business Assistance, 98% of Oregon firms are small businesses and employ over half the state’s workforce. According to the 2018 Small Business Profile for Oregon, published by the U.S. Small Business Administration,<sup>4</sup> small businesses (under the federal definition), provide:

- 59 to 64 percent of employment in Jackson County
- 34 to 59 percent of employment in Clackamas, Multnomah and Washington Counties.

<sup>2</sup> <https://www.epa.gov/ejscreen/how-interpret-standard-report-ejscreen>

<sup>3</sup> <https://www.epa.gov/ejscreen/overview-demographic-indicators-ejscreen>

<sup>4</sup> <https://www.sba.gov/sites/default/files/advocacy/2018-Small-Business-Profiles-OR.pdf>

**a. Estimated number of small businesses and types of businesses and industries with small businesses subject to proposed rule.**

Auto dealerships that participate in the VIP on-site testing program will continue to pay \$30 for each certificate of compliance. Approximately 35 dealerships currently participate in the VIP mobile on-site testing program and DEQ estimates most or all of those dealerships are small businesses.

**b. Projected reporting, recordkeeping and other administrative activities, including costs of professional services, required for small businesses to comply with the proposed rule.**

No additional activities are required to comply with the proposed rules. All businesses that participate in the mobile on-site testing already pay fees for each certificate of compliance.

**c. Projected equipment, supplies, labor and increased administration required for small businesses to comply with the proposed rule.**

No additional resources are required for compliance with the proposed rules. All businesses that participate in the mobile on-site testing already pay fees for each certificate of compliance.

**d. Describe how DEQ involved small businesses in developing this proposed rule.**

DEQ included small business representatives and representatives from auto dealer associations on the VIP Update Rulemaking Committee that advised DEQ on the cost of compliance for small businesses.

## Documents relied on for fiscal and economic impact

Document title	Document location
2018 Small Business Profile for Oregon	U. S. Small Business Administration <a href="https://www.sba.gov/sites/default/files/advocacy/2018-Small-Business-Profiles-OR.pdf">https://www.sba.gov/sites/default/files/advocacy/2018-Small-Business-Profiles-OR.pdf</a>
EPA EJ Screen Standard Reports	Reports saved in DEQ electronic files for VIP 2020 Fee Increase and Updates Rulemaking.  To produce reports: <a href="https://ejscreen.epa.gov">https://ejscreen.epa.gov</a>  EJ Screen guidance and documentation: <a href="https://www.epa.gov/ejscreen/how-interpret-standard-report-ejscreen">https://www.epa.gov/ejscreen/how-interpret-standard-report-ejscreen</a> <a href="https://www.epa.gov/ejscreen/overview-demographic-indicators-ejscreen">https://www.epa.gov/ejscreen/overview-demographic-indicators-ejscreen</a>

## Advisory committee

DEQ has appointed an advisory committee.

As ORS 183.333 requires, DEQ will ask for the committee's recommendations on:

- Whether the proposed rules would have a fiscal impact,
- The extent of the impact, and
- Whether the proposed rules would have a significant adverse impact on small businesses and complies with ORS 183.540.

The committee will review the draft fiscal and economic impact statement and its findings will be stated in the approved minutes.

## Housing cost

As ORS 183.534 requires, DEQ evaluated whether the proposed rules would have an effect on the development cost of a 6,000-square-foot parcel and construction of a 1,200-square-foot detached, single-family dwelling on that parcel. A memo<sup>5</sup> pertaining to a study conducted by the University of Oregon to support Oregon Department of Land Conservation and Development rulemaking describes the major factors influencing the cost of residential housing construction. Cost components include land, material and labor, and regulatory costs such as permits, compliance with zoning requirements, and system development charges.

DEQ determined the proposed rules would have no effect on housing development costs because the proposed rule is intended to fill a revenue shortfall in DEQ's Vehicle Inspection Program by increasing the fee for a certificate of compliance. DEQ would not expect the certification fee increase to affect the major cost components of residential construction such as cost of land, building materials, or labor. Nor would the fee increase affect the administration of permit or zoning regulations.

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[https://www.oregon.gov/lcd/UP/Documents/UO-Cost\\_Components.pdf](https://www.oregon.gov/lcd/UP/Documents/UO-Cost_Components.pdf)<sup>5</sup>