



## Legislative Fiscal Bureau

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June 24, 2008

TO: Members  
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Transportation: Section 13.10 Request for Funding for Contract Costs Under the Vehicle Emissions Inspection Program -- Agenda Item VI

### REQUEST

The Department of Transportation requests \$11,025,000 SEG in 2008-09 for contract costs under the vehicle emissions inspection program and \$1,119,200 SEG in 2008-09 for costs related to the transition to a new testing contract utilizing a different testing system.

### BACKGROUND

The Department of Transportation (DOT) administers the vehicle emissions inspection program in seven counties in the southeastern portion of the state that are classified under federal standards as moderate nonattainment areas with respect to ozone pollution. The seven affected counties are Kenosha, Milwaukee, Ozaukee, Racine, Sheboygan, Washington, and Waukesha. The state is required to administer such a program under the federal Clean Air Act Amendments of 1990.

DOT currently administers the program through a private contractor, Envirotest of Wisconsin, that conducts the tests at 12 stations located in the seven-county region. In 2007-08, DOT's costs under the contract are expected to be \$13,324,400. The five-year contract with Envirotest expires on June 30, 2008, but at the time of the Legislature's budget deliberations, the Department indicated that it was seeking a one-year contract extension, rather than committing to another multi-year deal, to allow for a transition to a different testing system. As part of that transition, 2007 Act 20 changed the statutory testing requirements, eliminating the testing of certain vehicles and adding testing for certain other vehicles that are currently exempt from testing. Specifically, all vehicles of model year 1995 and earlier become exempt from testing on July 1,

2008. However, beginning with model year 2007, all gasoline and diesel powered vehicles that are up to 14,000 pounds will be subject to testing. Under current law, all diesel powered vehicles and those gasoline powered vehicle over 10,000 pounds are exempt from testing. Because it was anticipated that these changes could impact the amount of the state's testing contract under any one-year extension, and because DOT anticipated there would be other costs associated with a transition to an entirely new contract, Act 20 placed \$12,144,200 in the Committee's appropriation to allow the Committee to have oversight over the disbursement of these funds once more information was available on these issues.

Under the current contract, testing is conducted either using a tailpipe test, in which the level of pollutants in the vehicle's exhaust is examined, or through an on-board diagnostic test, in which a computer is used to examine the functioning of the vehicle's emissions system. Vehicles manufactured in 1996 and later have on-board diagnostic capability, which takes less time to complete than tailpipe tests. The statutory change to exempt older vehicles from testing was intended to allow testing to be done using only on-board diagnostic systems, a change expected to reduce the overall cost of the program. The Department also indicated that using on-board diagnostic testing could allow testing to be conducted in ways other than at fixed stations, which could either lower the cost or make getting a test more convenient for motorists.

The Department has preliminarily chosen a new vendor to conduct testing beginning on July 1, 2009. Under the terms of the vendor's proposal, the Department would make annual payments of \$3,780,000 for five years. The contract has not been finalized since one contractor that submitted a proposal, but was not awarded the contract, is appealing the Department's decision.

## **SUMMARY OF REQUEST**

The Department's request is for the full amount set aside by Act 20 for the vehicle emissions inspection program, divided between contract costs (\$11,025,000) and costs relating to the transition to a new testing system (\$1,119,200). The payments under the contract extension are less than the payments in the prior year by \$2,299,400, a reduction of 17.3%, primarily due to a reduction in the volume of tests conducted by the contractor.

The Department's request for funding for the transition to a new contract contains several elements, which are shown in the following table. Following the table is a brief description of each element.

## Requested Vehicle Emissions Inspection Program Contract Transition Costs

<u>Item</u>	<u>2008-09 Cost</u>
Data Processing on Vehicle Testing System	\$624,800
Data Processing Management Liaison	173,000
Contract Implementation Coordination	80,400
Facilities Management Oversight	78,300
Public Outreach	76,000
Vehicle Diagnostic Hardware and Software	70,700
Staff Education	<u>16,000</u>
Total	\$1,119,200

*Data Processing on Vehicle Testing System.* The Department's request includes \$624,800 for data processing to accommodate new testing methods that would be used beginning in 2009-10. Under current practice, tests are conducted by the contractor at fixed-site facilities and the results are transmitted to DOT at the end of each day. Under the Department's new contract, beginning on July 1, 2009, various other testing methods could be utilized, including self-service kiosk testing and remote sensor testing (under which vehicle data is sent automatically to a sensor). These alternative methods require test results to be input into the Department's database at the time of the test in order for the result to be validated. The data processing changes would be designed to add this capability to the system. At the same time that these changes are made, the Department would update the system to include diesel powered vehicles and vehicles up to 14,000 pounds under the testing requirements and construct an interface with a new contractor.

*Data Processing Management Liaison.* The Department's request includes \$173,000 to hire a consultant to serve as a liaison between the Department, the data processing consultant, and the new testing contractor and manage the data processing work to ensure compliance with new programmatic requirements.

*Contract Implementation Coordination.* The Department's expenditure plan for the transition to a new contractor includes \$80,400 for a one-year project position to monitor and direct the implementation of the provisions of contract. The tasks of this position would include developing operating procedures for the new types of tests, coordinating training for the Department's emissions testing staff, and public outreach efforts.

*Facilities Management Oversight.* Under the Department's request, a limited-term employee would be hired at a cost of \$78,300 (this includes salary, fringe benefits, support activities, and travel) to oversee the implementation of the new contractor's facilities plan. Specifically, the position would be used to ensure that testing facilities are located in areas that best serve the public and that they comply with elements of the contract.

*Public Outreach.* The Department proposes to spend \$76,000 for notifying the public of new testing requirements and procedures, including notification to service station owners. This includes selected media purchases and mailings.

*Vehicle Diagnostic Hardware and Software.* The Department would plan to purchase equipment and software designed to provide a more precise indicator of the reason for testing failures. In some cases, a test failure may be due to a malfunction in the vehicle's ability to monitor the emissions system rather than a failure of the system itself. Under the current testing contract, a tailpipe test can often be administered to circumvent this problem, but under the new contract tailpipe testing will most often not be an option. The Department's proposal includes \$70,700 for hardware and software to allow the testers to distinguish between various types of failure to more efficiently direct repairs.

*Staff Education.* The Department's request includes \$16,000 for education of Department emissions testing program staff. These employees monitor the testing contract on a day-to-day basis.

## **ANALYSIS**

In order to maintain the state's testing program, the Department will be required to continue making payments to Envirotest of Wisconsin during the one-year contract extension through 2008-09. Without approval of the request, the Department would have no budgetary authority for contract payments since the payments are made from an appropriation for which there is currently no funding.

Although changes to the test requirements will result in some savings in 2008-09, more significant savings will occur once new testing procedures are fully implemented. If the Department's preliminary approval of a new contract is completed as proposed, contract payments will decline by \$9,544,400, or 71.6%, relative to the current year contract. To achieve these savings, however, the Department is requesting funding for some up-front costs. The part of the Department's request for \$1,119,200 could be characterized as these up-front costs.

The largest share of the Department's transition costs is for data processing and technical oversight of those changes, which is typical for significant programmatic changes that involve systems, like the Department's vehicle registration database, that are highly automated. The other parts of the request relate primarily to contract oversight issues. Since the activities of the emissions testing program are conducted primarily by a private contractor, the Department has relatively few employees dedicated to the program, most of which are for monitoring day-to-day testing activities. The Department's request would, in effect, provide enhanced contract oversight on a temporary basis, after which time the contractor would be primarily responsible for program administration. If the Committee approves this request, the Department would have the same amount of funding that the Governor's original budget bill would have provided for this transition.

Since the new contract is expected to be less than the existing contract, the Committee could specify that the 2008-09 base for the emissions testing contract appropriation be established at \$3,780,000, instead of \$11,025,000, to reflect the expected savings. If the final contract is more than this amount, the Department would have to request an increase above this base. Similarly, the Committee could specify that the requested amounts for transition to the new testing system not be reflected in the Division of Motor Vehicles appropriation base, since these are one-time costs.

## **ALTERNATIVES**

1. Approve the Department's request for \$11,025,000 SEG in 2008-09 for payments under the state's contract for vehicle emissions testing and \$1,119,200 SEG in 2008-09 for costs related to the transition to a new contract.

2. Modify the Department's request by specifying that the 2008-09 emissions testing contract appropriation base be established at \$3,780,000 and that the Division of Motor Vehicles appropriation base not reflect the requested funds for contract transition costs.

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