

Department of Legislative Services
 Maryland General Assembly
 2007 Session

FISCAL AND POLICY NOTE

House Bill 608 (Delegate Cardin, *et al.*)
 Environmental Matters

Environment - Energy-Efficient Replacement Tires

This bill requires the Maryland Department of the Environment (MDE), by July 1, 2009, to develop • a procedure to test the energy efficiency of replacement tires; • a related database; and • a rating system that will provide consumers with a means of making informed decisions when purchasing tires. MDE must adopt regulations requiring a tire manufacturer that sells tires in Maryland to report on the number of energy-efficient tires sold annually. By July 1, 2010, MDE must adopt regulations to implement a program for energy-efficient replacement tires; the bill establishes requirements for the program.

The bill takes effect July 1, 2007.

Fiscal Summary

State Effect: General fund expenditures could increase by as much as \$993,700 in FY 2008 for MDE to implement the bill, which includes a one-time \$850,000 cost for a contractor; costs could be significantly less to the extent MDE is able to benefit from studies currently underway in California. Future year expenditures are annualized, adjusted for inflation, and reflect ongoing costs.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	993,700	182,300	298,000	260,100	274,000
Net Effect	(\$993,700)	(\$182,300)	(\$298,000)	(\$260,100)	(\$274,000)

Note: () = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Potential increase in local expenditures to purchase energy-efficient replacement tires; however, any increase in costs would likely be offset by fuel savings.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: Before adopting regulations establishing a program, MDE must conduct a series of public workshops. The regulations for the program must take effect January 1, 2011, and must be designed to ensure that replacement tires sold in the State are at least as energy efficient, on average, as the original tires provided by the automobile manufacturer. The program must include the development of minimum energy efficiency standards for replacement tires that meet specified conditions as well as the development of consumer information requirements. Standards must be based on results from laboratory testing, but MDE is authorized to use on-road fleet testing conducted by manufacturers as determined necessary. Testing must be complete by January 1, 2008.

The bill provides for an exemption to the use of energy-efficient replacement tires for emergency vehicles under specified conditions.

MDE has to review and revise the program as determined necessary but must do so at least every three years. However, MDE is prohibited from revising the program or standards in a way that reduces the average energy efficiency of replacement tires.

Current Law: The Air and Radiation Management Administration within MDE operates the State's air pollution control programs under the framework established by the federal Clean Air Act. MDE does not currently administer any programs that relate to the energy efficiency of replacement tires.

Background: According to Environment Maryland, energy efficiency standards for replacement tires can improve the fuel economy of the existing vehicle fleet at a net savings to consumers. Automobile manufacturers generally include gasoline-saving low-rolling resistance tires on new vehicles in order to meet federal fuel economy standards. However, energy-saving tires are generally not available to consumers when they replace their original tires. As a result, vehicles with replacement tires do not achieve the same fuel economy as vehicles with original tires. According to MDE, most replacement tires are typically about 20% less fuel-efficient than the original tires. Because each 10% reduction in tire rolling resistance leads to roughly a 2% increase in fuel economy, if aftermarket tires were as efficient as the average tires on new vehicles, vehicle fuel economy could improve by approximately 4%.

California enacted legislation in 2003 to require that replacement tires sold to consumers beginning in July 2008 have the same average energy efficiency as the original tires

provided by automakers. This bill is modeled after the California legislation. MDE reports that a study completed by the California Energy Commission found that a set of four low-rolling resistance tires would cost consumers an estimated \$5 to \$12 more than a set of conventional replacement tires, but that the efficient tires would reduce gasoline consumption by 1.5% to 4.5%, saving the typical driver \$50 to \$150 over the 50,000 mile life of the tires.

State Expenditures: General fund expenditures could increase by as much as \$993,652 in fiscal 2008, which accounts for a 90-day start-up delay. This estimate reflects the cost of hiring three public health engineers to implement and supervise the program, oversee testing, develop the database and regulations, conduct reviews and evaluations, and develop, implement, and oversee consumer information requirements. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses, including significant costs to hire an expert contractor to develop and conduct the test procedures and analyze the data.

Salaries and Fringe Benefits	\$131,815
Contractual Services	850,000
Other Operating Expenses and Equipment	<u>11,837</u>
Maximum FY 2008 State Expenditures	\$993,652
Positions	3

Legislative Services advises that the cost of contractual services, which constitutes the majority of the bill's costs in fiscal 2008, could be significantly less, or possibly even eliminated altogether, if MDE is able to benefit from the results of studies currently underway in California. At this time, it is unclear if California's studies will be far enough along for MDE to benefit from in time to meet the deadlines established in this bill.

Future year expenditures reflect: (1) full salaries with 4.5% annual increases and 3% employee turnover; (2) 1% annual increases in ongoing operating expenses; (3) the cost to hire an environmental enforcement inspector in the middle of fiscal 2010 to conduct compliance inspections; and (4) contractual services of \$75,000 in fiscal 2010 to print and distribute consumer and dealer information and conduct outreach and education.

State agencies could incur an increase in expenditures to purchase energy-efficient replacement tires; however, any increase in costs would likely be offset through fuel savings.

Small Business Effect: It is assumed that tire manufacturers are not small businesses. The bill's impact on tire dealers is unclear; however, assuming that dealers are able to sell off existing stocks prior to the effective date of the standards, and that energy-efficient replacement tires are available in sufficient quantity so as not to impact the number of tires sold by dealers in the State, the impact on tire dealers may not be significant. Any increase in the cost of replacement tires would be passed on to consumers in the form of higher prices. Although small businesses could incur an increase in expenditures to purchase energy-efficient replacement tires; any increase in costs would likely be offset by fuel savings.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Department of the Environment, Environment Maryland, Department of Legislative Services

Fiscal Note History: First Reader - March 5, 2007
ncs/ljm

Analysis by: Lesley G. Cook

Direct Inquiries to:
(410) 946-5510
(301) 970-5510