Vehicle Inspection and Maintenance Program

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PADM 628 – Administration of Financial Resources

University of Alaska Anchorage

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EXECUTIVE SUMMARY

The political sustainability of the Inspection and Maintenance (I/M) program in Anchorage, Alaska is unclear. Should the Municipality of Anchorage (MOA) end the program, municipal personnel must consider ramifications to the budget, and address a budget shortfall caused by the absence of the program. This paper will guide both MOA personnel and public decisions by presenting a resource development analysis in response to a budget shortfall caused by the cessation of the I/M program.

Several political scenarios that could leave the MOA with a revenue shortfall related to the I/M program. An element of the Anchorage I/M program is emissions testing. The Anchorage I/M program also provides revenue for air monitoring compliance with state and federal environmental law.

The resource development analysis analyses revenue options on the merits of sound taxation and political feasibility. Increasing the vehicle registration fee, changing the MOA status within the law, and creating an excise tax on fuel are the most feasible options identified in this paper.
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INTRODUCTION

The Clean Air Act requires the Environmental Protection Agency (EPA) to set National Ambient Air Quality Standards for pollutants considered harmful to public health and the environment. Preliminary standards protect public health, while secondary standards set limits protect public welfare. The EPA reviews and revises local air quality standards every five years. The MOA’s monitoring program ensures compliance with the EPA standards. The MOA also monitors for benzene and other volatile organic compounds; although there are no ambient standards for these pollutants (Air Quality Program Department of Health and Human Services Municipality of Anchorage, 2006).

The Inspection and Maintenance Program (I/M) was initiated in July, 1985 to address carbon monoxide (CO) pollution in Anchorage, as required by the Clean Air Act. Violations of air quality standards were frequent in the early 1980’s, and vehicles were cited as responsible for nearly 90-percent of CO emitted. Anchorage has not violated of the federal standard since 1996 (Sierra Research, Inc., 2007). The improved air quality in the MOA lead to a debate regarding the continued merits of the I/M program.

The debate is statewide. In the 2010 regular Alaska legislative session, the Community & Regional Affairs and Transportation Committee of the House of Representatives considered HB 244 (see appendix A). At the publication of this paper, it remains in Committee for review in the 2011 session. HB 244 eliminates the ability for municipalities to link emissions testing to vehicle registration (An Act Relating to Motor Vehicle Inspections and Maintenance Emissions Control Programs, 2009).
The MOA uses the I/M program as a source of funding for environmental compliance. Every year the program funds approximately $1.7 million for air quality monitoring required of the MOA by the Clean Air Act (Mayor's I/M Task Force, 2007). If the I/M program is not linked to state vehicle registration, as proposed by HB 244, it cannot continue to provide funding for federal environmental compliance. In such a scenario, the MOA would need to find another source of funding in the amount of $1.7 million to monitor air quality within the municipality.

The purpose of this evaluation is to guide the decision maker in the quest for alternative funding for the federally mandated air quality monitoring in the event that the I/M Program ceases. This paper will guide both MOA personnel and public decisions by presenting a Resource Development Analysis (Wang, 2006) in response to a budget shortfall caused by the cessation of the I/M program.
METHODOLOGY AND RESEARCH

Research Design

This paper reviews the Municipality of Anchorage’s (MOA) Inspection and Maintenance (I/M) program, municipal air quality measures, federal and state policies for air quality standards and related trends. Municipal budgets from the Office of Management and Budget (OMB) are used for the resource development analysis. Data utilized is both quantitative and qualitative.

Data Collection

Meta-analysis research conducted lead to a review of relevant documentation and interviews within the automotive industry and the Anchorage Municipality’s Department of Health and Human Services.

Literature Review

This paper includes a review and analysis of documentation and publications related to the I/M program literature and budgets center on the programs municipal financing of the state and federal air quality monitoring mandates.

Mayor’s I/M Task Force

Mayor Mark Begich established an I/M Task Force to consider the future of the I/M Program in September 2007. At the time, there was speculation that the program no longer made a significant difference in air quality (Begich, 2007).

The Mayor’s Task Force reviewed the history of the I/M program and published the following. In the late 1970’s and early ‘80’s Anchorage frequently exceeded Federal Air Quality Standards. Since the program’s inception, CO gas concentrations in Anchorage decreased by over 60-percent. Furthermore, Anchorage has not tested below the federal standards since 1996.
One study sponsored by the Municipality suggests that the I/M reduced vehicle CO emissions by nine tons per day. While this was an impressive drop in emissions, the task force found that much of this was due to modern emissions standards in new vehicles, potentially making the emissions program obsolete (Mayor's I/M Task Force, 2007).

**Anchorage in Compliance**

The Clean Air Act requires the Environmental Protection Agency (EPA) to set National Ambient Air Quality Standards. The EPA reviews relevant information and revises standards every five years. Anchorage exceeds these standards by also monitoring for benzene and other volatile organic compounds. Table 1 illustrates Anchorage’s Air Quality Status under EPA guidelines as of 2006. In June 2004 the EPA reclassified Anchorage as a maintenance area after being classified as nonattainment or serious nonattainment for over 25 years. Anchorage has not violated the CO NAAQS since 1996.

<table>
<thead>
<tr>
<th>Pollutant</th>
<th>Current Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>CO</td>
<td>In June 2004 the EPA reclassified Anchorage as a maintenance area after being classified as nonattainment or serious nonattainment for over 25 years. Anchorage has not violated the CO NAAQS since 1996.</td>
</tr>
<tr>
<td>PM$_{10}$</td>
<td>Eagle River is currently considered nonattainment but may be redesignated as a maintenance area. The Anchorage bowl has exceeded the NAAQS during windstorms and after ash fall from volcanic eruptions but these exceedances are considered &quot;natural events&quot;.</td>
</tr>
<tr>
<td>PM$_{2.5}$</td>
<td>Data collected indicate that Anchorage is in attainment with NAAQS for fine particulate.</td>
</tr>
<tr>
<td>Lead</td>
<td>Attainment</td>
</tr>
<tr>
<td>SO$_2$</td>
<td>Attainment</td>
</tr>
<tr>
<td>O$_3$</td>
<td>Attainment</td>
</tr>
<tr>
<td>NO$_2$</td>
<td>Attainment</td>
</tr>
</tbody>
</table>

*Source: Air Quality in Anchorage, April 2006*
The Municipal Department of Health and Human Services (DHHS) prepared a CO maintenance plan showing that Anchorage should remain in compliance through 2023 (Air Quality Program Department of Health and Human Services Municipality of Anchorage, 2006).

In addition to meeting the requirements set by the EPA, MOA is a signatory, along with 710 others, to the U.S. Mayors Climate Protection Agreement. As a part of this agreement, the MOA must attempt to meet or beat the Kyoto Protocol targets of seven percent reduction from 1990 levels by 2012. The greenhouse gas emissions inventory is the first step for Anchorage to measure reductions completed off of base year 2008 (Ralph & Welker, 2009, p. 3). The MOA has completed the baseline study; results can be found in Table 2.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Equiv C02 (tonnes)</th>
<th>Equiv C02 (%)</th>
<th>Energy (MMBtu)</th>
<th>Cost ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>34,747</td>
<td>11.8</td>
<td>337,855</td>
<td>$5,052,130</td>
</tr>
<tr>
<td>Vehicle Fleet</td>
<td>18,448</td>
<td>6.3</td>
<td>214,764</td>
<td>$6,168,680</td>
</tr>
<tr>
<td>Employee Commute</td>
<td>9,189</td>
<td>3.1</td>
<td>107,886</td>
<td>$0</td>
</tr>
<tr>
<td>Streetlights</td>
<td>15,570</td>
<td>5.3</td>
<td>79,365</td>
<td>$3,033,346</td>
</tr>
<tr>
<td>Water/Sewage</td>
<td>15,942</td>
<td>5.4</td>
<td>141,272</td>
<td>$2,614,992</td>
</tr>
<tr>
<td>Waste</td>
<td>200,933</td>
<td>68.2</td>
<td></td>
<td>$0</td>
</tr>
<tr>
<td>Total</td>
<td>294,829</td>
<td>100</td>
<td>881,142</td>
<td>$16,869,148</td>
</tr>
</tbody>
</table>

Table 2
Total Emissions from MOA Operations in 2008 by Sector

Source: Municipality of Anchorage Baseline Greenhouse Gas Emissions Inventory, June 2009

Supplement to the Kyoto Protocol the MOA chose to adopt the framework developed by the Local Governments for Sustainability (ICLEI) for measuring progress toward reduction goals. As a signatory to ICLEI the MOA agreed to follow the five-milestone program:

1. Conduct a baseline greenhouse gas inventory and forecast
2. Adopt an emissions reduction target
3. Develop a Climate Action Plan for reducing emissions
4. Implement the Action Plan
5. Monitor and verify results

As shown in Table 3, motor vehicles account for an estimated 76-percent of all CO emissions in Anchorage. While this is a majority of the CO emissions in Anchorage, it is worth noting that almost a quarter of the emissions are from sources not covered by the I/M program, and therefore sources that are not paying to monitor the air quality of Anchorage.

<table>
<thead>
<tr>
<th>Source Category</th>
<th>CO Emitted (tons per day)</th>
<th>% of total*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor vehicle - on-road travel</td>
<td>67.6</td>
<td>56.2%</td>
</tr>
<tr>
<td>Motor vehicle - warm-up idle</td>
<td>25.3</td>
<td>21.0%</td>
</tr>
<tr>
<td>Ted Stevens Anchorage International Airport Operations</td>
<td>11.8</td>
<td>9.9%</td>
</tr>
<tr>
<td>Merrill Field Airport Operations</td>
<td>1.0</td>
<td>0.9%</td>
</tr>
<tr>
<td>Wood burning - fireplaces and wood stoves</td>
<td>5.8</td>
<td>4.8%</td>
</tr>
<tr>
<td>Space heating - natural gas</td>
<td>3.6</td>
<td>3.0%</td>
</tr>
<tr>
<td>Miscellaneous (snowmobiles, snow removal, welding, etc.)</td>
<td>3.7</td>
<td>3.1%</td>
</tr>
<tr>
<td>Point sources (power generation, sewage sludge incineration)</td>
<td>1.5</td>
<td>1.2%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>120.3</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

*Total does not sum exactly to 100% due to rounding

Source: Air Quality in Anchorage, April 2006

Financial Effects of Discontinuation

The 2007 report from the I/M Task Force estimates the total cost of the I/M program to Anchorage residents to be $8.7 million annually. Of that total, approximately $7 million goes to private stations that perform the inspections and repairs to the vehicles (Mayor's I/M Task Force, 2007). The remaining $1.7 million covers the certificate fee charged by the MOA for:

- Oversight and certification of approximately 80 private facilities and 170 certified mechanics
- Operation of a customer service counter
- Operation of DMV network for remote registration renewals
- Operating private “Referee” contractor station
• Funding most of MOA’s Air Quality Program - includes assurance of continued
grant match requirement for the remainder of program funding.

Table 4 shows the estimated cost-effectiveness of the current I/M program.

<table>
<thead>
<tr>
<th>Table 4</th>
<th>Estimated Cost-Effectiveness of the Current I/M Program</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current I/M Test Protocol</td>
</tr>
<tr>
<td></td>
<td>Per Unit</td>
</tr>
<tr>
<td>ANNUAL PROGRAM COSTS</td>
<td></td>
</tr>
<tr>
<td>All Vehicles in Program</td>
<td></td>
</tr>
<tr>
<td>Ave Test Cost</td>
<td>$40</td>
</tr>
<tr>
<td>Certification Fee</td>
<td>$18</td>
</tr>
<tr>
<td>Failing Vehicles</td>
<td></td>
</tr>
<tr>
<td>Repair Cost</td>
<td>$285</td>
</tr>
<tr>
<td>Fuel Savings</td>
<td>$40</td>
</tr>
<tr>
<td>Total Program Cost (1000-Vehicle Basis)</td>
<td>$90,830</td>
</tr>
<tr>
<td>ANNUAL PROGRAM BENEFITS</td>
<td></td>
</tr>
<tr>
<td>CO Benefits</td>
<td></td>
</tr>
<tr>
<td>g/mi Reduction</td>
<td>2.74</td>
</tr>
<tr>
<td>Mileage</td>
<td>10,000</td>
</tr>
<tr>
<td>Benefits (tons)</td>
<td>0.03</td>
</tr>
<tr>
<td>COST-EFFECTIVENESS</td>
<td></td>
</tr>
<tr>
<td>%/ton</td>
<td></td>
</tr>
</tbody>
</table>


If HB 244 passes and I/M is no longer a mandatory component of vehicle registration, the
MOA will be required to revise its CO air quality plan. Federal regulations require that the
revised plan to be submitted through the Alaska Department of Environmental Conservation
(DEC) for inclusion in the State Implementation Plan for Air Quality (SIP). The Clean Air Act
requires that the SIP include the I/M Program as one of several contingency measures that could
be implemented or re-implemented in the event of a future violation of the CO standard. The
SIP may also prioritize contingency measures in order of implementation so that other measures would be implemented before the I/M Program (Mayor's I/M Task Force, 2007).

After the I/M Task Force reviewed the data and public comment that they collected, they formally recommended that the program should not be continued in its current form. However the majority of the group also agreed that it should not be discontinued. One recommendation included assuring continued funding of the MOA air quality monitoring program through vehicle inspection revenues or some other vehicle registration fee (Mayor's I/M Task Force, 2007). The committee acknowledged the revenue shortfall that could occur if the I/M program were to be discontinued.
RESOURCE DEVELOPMENT ANALYSIS

Developing Revenue Options

The annual costs of I/M to Anchorage residents are estimated to be approximately $8.7 million. Private inspection fees and repairs for failed tests assess approximately $7 million of this cost. The other $1.7 million is the Municipality of Anchorage certification fee (Mayor's I/M Task Force, 2007). If the I/M program is discontinued, MOA will be faced with a $1.7 million shortfall to help cover all portions of the existing air quality monitoring and vehicle inspection program.

With a $1.7 million shortfall, MOA must assess all revenue options. First, this resource development analysis will explore options to cut spending and secondly will explore revenue increases. This resource development analysis assumes continued intergovernmental assistance. Much of the cost of the EPA required air quality monitoring is provided by grants from the Federal Government. There is no reason to assume a change in this arrangement.

Cut Spending

The $1.7 million in certification fees that the municipality receives annually covers the cost of: oversight and certification of approximately 80 private facilities and 170 certified mechanics, a privately contracted customer service “Referee” station, a DMV network allowing remote registration renewals, and most of MOA’s Air Quality Program, including assurance of continued grant match requirement for the remainder of program funding (Mayor's I/M Task Force, 2007). Between the years of 2003 and 2008 the air quality-monitoring program cost an average of $509,819.67 per year (Morris, 2010). Of that cost, the MOA contributed $323,000
per year with the balance paid by the EPA. The implication of this data is that the remainder of the fees generated by the MOA I/M program is net-positive revenue to the department of Health and Human Services (HHS). While we were able to determine line item spending for the department through publicly available annual budgets, we could find no such line items for revenue. Therefore, without more information from HHS, this committee is unable to recommend any cuts to spending as a part of the I/M program.

*Increase Revenue*

*Increasing Taxes*

Localities that are in need of greater revenue often maintain their income with a tax. Equity, economic efficiency, simplicity of collection, and revenue consequences should guide taxation (Mikesell, 2009). The I/M program was created to have automobile owners pay for federally mandated air quality monitoring. The rationale of having the emitters pay is equitable.

The MOA tax cap prevents the growth of the city’s financial obligation on a year-to-year basis. While the tax cap has built in escalators to deal with cost of living or new growth in the city, it does not have an escalator to deal with new spending or new programs (Gray-Jackson, 2010). If the city were to do away with the I/M program on its own, it could do so with a ballot initiative that would include a rise in the tax cap to cover the expenses of monitoring air quality. Under such a scenario, the program would disappear, and the tax cap would increase by just over a million dollars. Most property owners would not notice the increase, indeed property owners who also owned cars would end likely end up paying less money overall. Under this scenario, the tax burden of monitoring air quality in the MOA would be distributed among all the property taxpayers in Anchorage, insuring that all CO emitters are paying.
If HB 244 becomes law, however, the likelihood of voting for an increase in the tax cap is significantly less. The revenue stream that pays for air quality monitoring will no longer be available, but the expense will still be mandated. The cost of paying those expenses will have to come out of somewhere else in the budget, meaning one or two interest groups within the city will have to be cut. If HB 244 were to become law before the city acted on it’s own, the entire cost of monitoring air quality would be born by the few people who rely on the city services that would have to be cut.

To maintain equity, two excise taxes could replace the lost fees of the I/M program: an automobile sales tax and a fuel tax. The automobile sales tax could cover the revenue shortfall. However, with a floundering local economy and powerful local industry, this is politically unfeasible as it may have an effect of driving auto sales outside of the Anchorage Municipality.

A fuel tax could be applied to purchasers at the pump or, more easily, to wholesalers. If true, a fuel tax would help solve the “free rider” issue, by having more commuters paying for the air quality monitoring when they buy gas in town. This may also be the cheapest and easiest taxation option to implement, as it would “piggy back” on existing taxation bureaucracy. Additionally, the tax could be applied to other types, for example airplane fuel, reflecting the fact that the aviation industry is the largest group of emitters in the municipality; again answering the “free rider” issue of equity (Air Quality Program Department of Health and Human Services Municipality of Anchorage, 2006).
Increase or Create User Charges

Another option for meeting a revenue shortfall is to charge for services. It is how the air-monitoring program was previously funded. Unfortunately, the product is cleaner air, which is difficult to meter because it is not a business type of service. However, it is possible that the municipality could create an emissions cap and credit program for major emitters like the Airports. The municipality could ask for major emitters to pay a fee for exceeding previously established standards. Moreover, commercial vehicles could be assessed an additional registration fee based on weight or axel.

A commuter fee could be applied to the major interchanges and highways in the form of a toll. While tolls are often unpopular with users, which may make this a politically untenable proposal, other cities have had great results with a toll system to offset their major highway projects. However, this collection costs would actually require a greater outlay of resources and could not immediately address the shortfall.

Borrowing

Often localities resort to borrowing to meet immediate shortfalls. This is not equitable due to the lack of any real capital improvements that could benefit the future taxpayers who would be responsible for paying-off any incurred debt. Bonding is only equitable when the immediate use of the borrowed resource can be offset by long-term future use.

Use of Financial Reserves

Using savings to overcome short-term deficit problems is a simple and immediate solution, as long as the shortfall is not chronic or large (Wang, 2006). In the case of the potential
shortfall from the I/M program, the shortfall is not large, but it is chronic. Therefore, using savings is impractical and unwise.

Institutional or Policy Change

Within the federal law, there is the ability to reclassify the MOA to a different standard. The new standard would not require the MOA to monitor quite as frequently, although it would require the MOA to be able to move back to the present standard immediately after failing a air quality test. Given the infrequency of our current air quality monitoring registering days where we are not in compliance, it may be possible to reduce our monitoring requirement within the law. This is a relatively short-term solution that would require little outlay for the MOA. It may also be possible for us to change the air quality laws. This is a long-term solution that would require changing federal law, which would require a long term, concerted political campaign, which would probably cost the MOA more than current compliance does.

ASSESSING REVENUE OPTIONS

Decision Making Matrix for Revenue Options

Presented below, in Table 5, is a decision-making matrix to help the politician, municipal employee and citizen understand and weigh the options presented above. The matrix is intended for the decision-maker to utilize as they see fit; adjusting both the values and weighting to meet their individual needs. Special consideration is given to three overarching criteria: political feasibility, Adam Smith’s maxims for just taxation, and legal feasibility. Other options may be added to meet an individual’s specific needs. The matrix does not include any weighting, but the individual using the matrix can apply increased weight to the sections of greatest importance to
their circumstance, if desired. Feasibility was graded by this committee on a five-point scale with “1” indicating unfeasible and “5” indicating feasible.

As Table 5 indicates, the highest rated options are creating a vehicle registration fee and changing the MOA status within the law, respectively. Although these two options came from different revenue categories, they both score well in both political feasibility and Smith’s principles. Moreover, the two options coincide with recommendations made by the Mayor’s I/M Task Force. These options might be desirable of an individual who would rely upon political goodwill.

Among the lowest rated revenue options are the proposals to establish a commuter fee and change federal law, respectively. In the first case, the option was politically unfeasible and not economical. In the second case, the option was inequitable and inefficient.
In all cases, if any single element proved unfeasible, the option tended to not score well overall. The exception, however, is the option of establishing a fuel tax. Although it would be very difficult to garner broad political support for such an option; the efficiency, equity, and simplicity are well established. This option might be desirable of an individual who was isolated from political peril.
RECOMMENDATIONS

After extensive research on possible revenue options for filling revenue shortfall due to potential cessation of the current I/M program in MOA we concluded that the revenue shortage could be resolved by some of the economical and political approaches the group discussed in the paper.

The good news is that air quality of MOA is at the national standard therefore, the feasible policy changes in the air monitoring should be considered as one of the practical options. However, we recommend further research on environmental impacts of not having as frequent monitoring as compared to the current policy.

The other potential method of raising revenue is to consider fuel tax on at the pump or wholesale. We agree that any taxable option is politically not favorable; however, an incremental increase will not significantly impact consumers, and public opposition can be expected minimally if we send out the right message to the public in portrayed, as it is what we need to do as responsible citizens.

Certainly, other options are feasible if policy makers identify challenges and barriers beforehand and come up with options that residents of MOA benefit in the long run.
REFERENCES


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Morris, S. (2010, April 1). Air Quality Program Costs [Electronic mailing message]. Retrieved from morrisss@ci.anchorage.ak.us


APPENDICES or APPENDIXES

HB 244

HOUSE BILL NO. 244
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-SIXTH LEGISLATURE - FIRST SESSION

BY REPRESENTATIVES STOLTZE, Ramras, Gatto

Introduced: 4/18/89
Referred: Community and Regional Affairs, Transportation

A BILL
FOR AN ACT ENTITLED

"An Act relating to motor vehicle inspections and maintenance emissions control programs."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 28.10.108(f) is amended to read:

(f) Upon request of the owner and payment of the proportionate prorated applicable fees, a vehicle registered under this section shall have its registration period extended in monthly increments to allow biennial registration to occur in the month of the owner's choice, except that registration may not extend beyond the expiration of an emissions inspection and maintenance certificate required for the vehicle. Notwithstanding the other provisions of this chapter, upon request of the owner, payment of the annual fee set out in AS 28.10.421(h) and [,] payment of any annual vehicle registration tax due under AS 28.10.431(f), [AND, IF APPLICABLE, PAYMENT OF ONE-HALF OF THE BIENNIAL EMISSION CONTROL INSPECTION PROGRAM FEE IMPOSED UNDER AS 28.10.423,] the department

HB0244a

New Text Underlined [DELETED TEXT BRACKETED]
shall register a vehicle used for commercial purposes for a one-year period.

* Sec. 2. AS 29.10.200 is amended by adding a new paragraph to read:

(64) AS 29.35.143 (regulation of motor vehicle emissions).

* Sec. 3. AS 29.35 is amended by adding a new section to read:

Sec. 29.35.143. Regulation of motor vehicle emissions. A municipality may not regulate the emissions from motor vehicles or require that motor vehicles be tested to determine their emissions or whether the vehicle's emissions control equipment is operating correctly. This section applies to home rule and general law municipalities.

* Sec. 4. AS 46.14.400 is amended by adding a new subsection to read:

(k) A local air quality control program may not regulate the emissions from motor vehicles under this section.

* Sec. 5. AS 28.10.041(a)(10), 28.10.271(d), 28.10.423; AS 44.46.025(a)(2); AS 45.45.400; 45.50.471(b)(31); 45.50.471(b)(31); AS 46.14.400(c), 46.14.400(i), 46.14.400(j), and 46.14.510 are repealed.