



Oregon

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To: The Joint Committee on Ways and Means Natural Resources Subcommittee

From: The Department of Environmental Quality

Follow-up to the Vehicle Inspection Program Informational Item and SB 5702 Public Hearing

Thank you for the opportunity to speak with you on Wednesday February 12th regarding the Vehicle Inspection Program (VIP). This memo contains follow-up and clarifying information in response to committee discussion during the VIP informational item and questions raised during the public hearing on SB 5702.

The Department of Environmental Quality is very proud of our Vehicle Inspection Program. It is an example of an exceptionally well-run program that delivers outstanding customer service, provides critical air quality benefits, includes convenient one-stop emissions testing and DMV registration renewal services, all while relying on some of the lowest fees in the nation.

We appreciate your attention to this issue and ask for your support of SB 5702, ratifying the modest fee increase approved by the Environmental Quality Commission last year.

Oregon's Program Excels When Considering all Factors of Cost-Effectiveness

During the public hearing on SB 5702 you heard testimony in support of outsourcing the program to a private company. Testimony addressed 8 of the 38 programs in DEQ's comprehensive Cost Effectiveness Analysis. The emphasis on only certain programs mischaracterizes and omits critical information.

Aggregate data from programs across the United States empirically show that the private sector charges nearly triple the amount of publicly run programs. While there are specific examples of programs charging a lower fee, that is not an indication of greater cost-effectiveness, nor does it undermine the EQC conclusion that Oregon is using the right program method for delivering vehicle inspection services.

You heard testimony and analysis from Applus – a provider of emissions testing services – that relied on only 8 of the 38 programs nationwide. It was suggested that only 4 states, all of which charge lower fees, are comparable to the DEQ program. But critical information impacting total costs was omitted in the testimony and that includes:

- Availability of remote testing;
- Unlimited free re-testing, an important equity issue for those who rely on older vehicles; and
- The use of General Funds to supplement program funding

The table below highlights the distinguishing features of these programs.

Program	Remote Testing	Unlimited Free Re-tests	Non-Fee (GF) Support
Oregon	Yes	Yes	No
Tucson, Arizona	No	No	No
Washington*	No	No	Yes
Tennessee	No	No	Yes

*Washington’s program, formerly operated by Applus, ceased operation in 2019. The Washington legislature initiated a phasing-out of the program in 2005 and the fees were never updated once the program began to curtail operations.

You also heard testimony that the fee charged by four programs, Colorado, Indiana, Phoenix, Arizona, and Washington, D.C., are explained by their use of Dynamometer-based testing. It was suggested that these programs, therefore, be eliminated from the Cost Effectiveness Analysis. DEQ agrees that the use of this technology would increase test times and underlie relatively higher fees. The use of that technology, however, is not the sole determinant of higher fees. For example, Arizona programs charge only \$1.00 more for its Dynamometer-based tests.

The remaining existence of Dynamometer tests within certain programs further supports the EQC finding of Oregon’s cost effectiveness. DEQ successfully converted to the more contemporary and efficient OBD test over 20 years ago, to the direct benefit of our customers.

Statutes relating to the Vehicle Inspection Program and Cost-Effectiveness

Several references were made during DEQ’s prepared remarks and in follow-up testimony to statutes relating to the Vehicle Inspection Program, cost-effectiveness and contracting for services. Below is a summary of the relevant statutes and how the agency and commission have fully satisfied the requirements. It is important to note that while the commission has the authority, in certain circumstances, to contemplate privatization, there is no statutory obligation or direction to issue a Request for Proposals in the course of adjusting fees.

ORS 468A.365

This statute provides direction to the commission on the establishment of rules governing motor vehicle emission control systems and inspection programs. Section 7 reads “Except as provided in ORS 468A.370 (Cost-effective inspection program), contract for the use of or the performance of tests or other services within or without the state.” This language makes clear that certain private sector outsourcing may be used to complement a public program found to be cost effective under ORS 468A.370.

DEQ has, in fact, long satisfied the requirement to contract for the performance of testing and other services. Examples of how the agency satisfies this requirement today include:

- Private Sector Remote Testing: Beginning in 2016, DEQ has entered into working agreements with private sector service providers that offer a remote testing option currently referred to as

“DEQ Too”. Through this program, all consumers are afforded the option to obtain their vehicle emission test at one of roughly 200 repair shops, vehicle dealerships, oil change facilities or similar providers within the Portland metropolitan and Rogue Valley areas.

- Remote Testing Devices: The testing devices used to transmit test data at DEQ Too private partners are supplied by one of several private sector device makers, each of which must be approved by DEQ.
- Core Testing Systems: DEQ’s core testing systems are developed and maintained by an outsourced service provider. The OPUS Group, a large multi-national private sector enterprise, continues to deliver these core services to DEQ.
- Testing Facilities: The physical facilities at which DEQ tests are performed are all privately held. DEQ has entered into lease agreements for each of its facilities.

ORS 468A.370

This statute provides direction to the commission to determine the most cost-effective method of conducting motor vehicle pollution control system inspection programs, consistent with 468A.365. The section goes on to allow (but not require) the commission to contract for services when the commission finds that arrangement will:

- Provide savings to the public
- Increase efficiency
- Maintain the same level of quality of service

The commission satisfied this requirement by formally issuing a finding of cost-effectiveness at its November 2019 meeting. To inform the commission’s deliberations, DEQ prepared a comprehensive cost-effectiveness analysis addressing all factors described in ORS 468A.370, including the cost to the public (customers and the taxpayer), the program’s efficiency, and the quality of service. The commission found that Oregon’s hybrid approach – whereby we offer testing at centralized stations and contract with private entities– is the most cost-effective.

ORS 468A.400

This statute provides direction to the commission on the establishment of fees for the Vehicle Inspection Program. Subsection 1(b) requires that the commission “determine the most cost-effective program consistent with Clean Air Act requirements for each area of the state pursuant to ORS 468A.370” before establishing fees. The statute does not prescribe or give direction on the type of analysis required to inform the commission’s decision-making. To avoid biasing results by handpicking particular programs as comparisons, DEQ evaluated all testing programs across the United States.

Again, the commission satisfied this requirement at its November 2019 meeting by making a formal determination that Oregon’s service delivery model is the most cost-effective.

DEQ's Private Sector "DEQ Too" Partnership

DEQ Too is a first-in-its-kind partnership allowing for remote testing at any qualifying partner business. A more cost-effective approach than procuring the services of one testing provider. DEQ launched this program in 2016 to enhance convenience and expand options for our customers. The agency promotes this program through a dedicated website, www.DEQToo.org, which features an interactive map of all DEQ Too partners. We also include information, encouraging the use of DEQ Too, in every single DMV renewal reminder sent in the Portland-metro and Rogue Valley areas.

DEQ Too partners do not receive or evaluate test data, they transmit test data remotely from a vehicle to DEQ for evaluation and approval. While DEQ Too is growing in popularity, it is not without overhead expenses for the agency. In 2017-2019, approximately 4.5% of DEQ's tests were conducted via DEQ Too. At that volume, annual program expenses of approximately \$1,300,000 exceeded its current revenues of approximately \$900,000.

Those expenses are attributable to the work of DEQ personnel who have provided and continue to provide services including:

- Maintenance of technology platforms to enable DEQ to receive and process test results
- Transaction fees associated with online payment methods
- Accounting, auditing and reconciling financial data
- Creating and maintaining agreements and similar materials used by service providers
- Recruiting and working with now-over 200 services providers to negotiate and finalize service agreements
- Reviewing and approving remote-testing devices
- Addressing ongoing test reliability and other compliance issues
- Developing and implementing communication strategies, approving third-party advertisements referencing DEQ Too and responding to customer inquiries, among other activities

DEQ Too fees are not yet covering the agency's expenses associated with launching this program, but we are confident that will change over time as test volumes increase and cost-per-test decreases. DEQ is interested in re-evaluating the certificate fee for DEQ Too conducted tests when expenses and revenue break even.

When asked what motivates customers' decision about where to test, we routinely hear that the predictably low wait times and being able to receive their DMV registration renewal and license plate sticker are key factors for choosing a DEQ Clean Air Station.

Lane Regional Air Protection Agency and the Vehicle Inspection Program

Vehicle inspection and maintenance programs have proven to be an effective strategy to reduce and prevent air pollution in many areas of the country. Having said that, at this time there is no effort to expand Oregon's VIP to Lane County. Lane County has no history of violating federal standards for Carbon Monoxide or Ozone. Should the county ever be designated as nonattainment for transportation-related pollutants, LRAPA, in partnership with DEQ, would evaluate the conditions leading to the violations and develop a nonattainment plan. That plan *could* include implementation of a vehicle inspection program.

ORS 468A.390 directs the commission to designate testing area boundaries for areas of the state identified as needing a motor vehicle pollution control system inspection program within Oregon's State Implementation Plan (SIP). The SIP is Oregon's federally approved and enforceable plan for attaining compliance with federal air quality standards. Currently, the Portland-metropolitan and Rogue Valley regions are the only areas identified within the SIP as needing motor vehicle pollution control system inspection programs. As Administrator Mirzakhali mentioned, this is a result of those region's history of nonattainment with the federal standards for Carbon Monoxide and Ozone, largely due to motor vehicle emissions.