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May 5, 2015 Joint Committee on Finance Paper #490

PECFA Revenue Obligation Retirement
(DNR -- Environmental Quality)

[LFB 2015-17 Budget Summary: Page 328, #15]

CURRENT LAW

The state issued $387 million in petroleum inspection fee revenue obligations between 2000 and 2008 to pay the backlog of petroleum environmental cleanup fund award (PECFA) claims that developed during the 1990s. The obligations are paid from the segregated petroleum inspection fund, which receives revenue from the 2¢ per gallon petroleum inspection fee imposed on petroleum products brought into the state. As of April 1, 2015, the total amount of outstanding revenue obligations (the amount the state owes in principal) was $139.1 million.

GOVERNOR

Specify that if any moneys lapse from the PECFA award appropriation at the end of 2016-17, the Secretary of the Department of Administration (DOA) shall ensure that an amount equal to the amount of the lapse is expended from the petroleum inspection fund, no later than December 31, 2017, to pay outstanding principal on variable rate petroleum inspection fee revenue obligations.

DISCUSSION POINTS

1. It is anticipated the remaining balance of the petroleum inspection fee revenue obligations will be $71.2 million after the state makes the required payments on long-term debt during the 2015-17 biennium, and makes the final payment on the long-term obligations on July 1, 2017. It is also anticipated the state will continue to make interest-only payments on short-term variable rate obligations (also known as short-term commercial paper) during 2015-17, as it has done for the past several years.

2. Under current law, the first use of petroleum inspection fees is required to be payment of the revenue obligations. The state makes monthly payments of petroleum inspection fees to the revenue obligation debt service trustee account. The trustee makes required payments of long-term obligations on January 1 and July 1 of every year, and payments on short-term obligations approximately every three months. The current total amount of $139.1 million in outstanding revenue obligations includes $67.95 million in long-term obligations with a weighted average interest cost of 4.74%, and $71.15 million in short-term commercial paper with a weighted average interest rate of less than 0.4%. After required payments are made to the trustee account, the remaining fees are deposited into the petroleum inspection fund and used for expenditures for PECFA awards and administration, petroleum inspection and tank regulation, transfers to the transportation fund, and other programs in several agencies.

3. The table shows the actual annual payments made to the revenue obligation trustee for petroleum inspection fee revenue debt service for the past 10 years and estimated payments for 2014-15 through 2016-17. Debt service payments for 2009-10 through 2011-12 were lower than in prior years because the state refinanced the debt to defer principal payments and make funds available for transfer to the transportation fund. The estimated minimum amounts of debt service payments to the trustee account are $30.0 million in 2014-15, $28.8 million in 2015-16, and $13.3 million in 2016-17. Actual payments may vary depending on the interest rate for short-term obligations.

Petroleum Inspection Fee Revenue Obligation Payments to the Trustee Debt Service Account and Remaining Principal Balance ($ in Millions)

	Payment Amount*	Principal Balance**
2004-05	$29.6	$348.5
2005-06	70.5	318.5
2006-07	31.1	272.6
2007-08	29.6	252.3
2008-09	28.3	231.0
2009-10	11.2	188.6
2010-11	5.9	188.6
2011-12	7.8	188.6
2012-13	30.0	188.6
2013-14	30.0	164.4
2014-15 est.	30.0	139.1
2015-16 est.	28.8	112.6
2016-17 est.	13.3	84.8
July 1, 2017	---	71.2

*Includes payments to the trustee debt service account from July through June of the fiscal year.
**December 1 outstanding principal balance after making required payments.

4. DOA can use any undesignated petroleum inspection fund balances at any time to pay

additional debt service beyond the minimum required amounts. DOA could choose to either pay additional principal on the short-term obligations, or to convert part or all of the short-term paper into longer-term debt instruments with a fixed principal and interest payment schedule. Paying off additional principal would reduce the expected petroleum inspection fund balance accordingly.

5. Administration officials indicate that there are no current plans to pay any principal on the short-term obligations during the 2015-17 biennium. They further indicate that the rationale for including the provision in the bill is to document the Governor's intent to make payment of principal on the short-term obligations a priority in the 2017-19 biennium.

6. The bill would continue base funding for PECFA awards of $4.55 million annually, in a biennial appropriation, and would include provisions to sunset the program (described in a separate budget paper). Administration officials do not have an estimate of the amount that might lapse from the PECFA awards appropriation at the end of 2016-17 to be available under the bill for payment of principal on the short-term obligations.

7. Administration officials indicate the amount anticipated to lapse from the appropriation would be limited, because the PECFA appropriation would pay claims throughout the biennium. Thus, it is possible that the provision in the bill would result in a minimal or small amount paid in principal on the short-term obligations.

8. It could be argued that the provision in the bill is unnecessary because DOA can currently pay principal on the short-term obligations at any time. Alternatively, it could be argued that inclusion of the provision would take a step towards making future payments of principal on the short-term obligations.

9. Between 2009-10 and 2014-15, a total of $98.8 million was transferred from the petroleum inspection fund to the transportation fund, through a series of one-time requirements established in the past three biennial budgets. The bill would transfer an additional $42 million from the petroleum inspection fund to the transportation fund ($21 million in each of 2015-16 and 2016-17). In addition, $109.4 million was transferred from the petroleum inspection fund to the general fund between 2001-02 and 2010-11, in a series of one-time transfers. These transfers were made to benefit the balance of the transportation fund and the general fund. If these transfers had not been made, or were made in smaller amounts, the state could have completed payments of all petroleum inspection fee revenue obligations by now.

10. As discussed in a separate budget paper, the petroleum inspection fund is expected to have a substantial balance on June 30, 2017. Some of this balance could be used for paying principal on short-term obligations, under current law. Another option would be to amend the bill to require additional payments. For example, the bill could be amended to specify, in addition to, or instead of the provision in the bill, that at least a certain percentage of the unencumbered fund balance at the end of each fiscal year be used for payments of principal on short-term obligations. If this percentage would be set at 10%, under appropriation levels in the bill as introduced the amounts required to be used for payments of short-term obligations could total approximately $3.51 million, including $1.27 million after 2015-16 and $2.24 million after 2016-17 [Alternative 2a]. If the percentage would be set at 25%, the amounts used for payments of short-term obligations could

total approximately $8.30 million, including $3.18 million after 2015-16 and $5.12 million after 2016-17 [Alternative 2b]. At a percentage of 50%, the amounts could total approximately $15.01 million, including $6.36 million after 2015-16 and $8.65 million after 2016-17 [Alternative 2c].

ALTERNATIVES

1. Approve the Governor's recommendation to specify that if any moneys lapse from the PECFA award appropriation at the end of 2016-17, the Secretary of DOA shall ensure that an amount equal to the amount of the lapse is expended from the petroleum inspection fund, no later than December 31, 2017, to pay outstanding principal on variable rate petroleum inspection fee revenue obligations.

2. In addition to, or instead of approving Alternative 1, require the Secretary of DOA to ensure that an amount equal to at least one of the following percentages of the unencumbered balance of the petroleum inspection fund at the end of each fiscal year be used to pay outstanding principal on variable rate petroleum inspection fee revenue obligations:

   a. 10%

   b. 25%

   c. 50%

3. Delete provision.

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