



Legislative Fiscal Bureau

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May 24, 2001

Joint Committee on Finance

Paper #692

Vehicle Environmental Impact Fee (DNR -- Air, Waste and Contaminated Land)

[LFB 2001-03 Budget Summary: Page 498, #10]

CURRENT LAW

A \$6 per vehicle environmental impact fee is assessed at the time of titling new and used vehicles. The Department of Transportation collects the fees and deposits them in the environmental management account of the environmental fund. The fee was created in 1997 Act 27, effective December 1, 1997, at a rate of \$5 per vehicle and was applied to the titling of new vehicles. Effective December 1, 1999, 1999 Act 9 increased the fee to \$6 per vehicle and expanded the applicability of the fee to used vehicles. The fee is repealed on June 30, 2001. The fee generated \$8,650,100 in 1999-00 and will generate an estimated \$8,700,000 in 2000-01.

GOVERNOR

Recreate the \$6 per vehicle environmental impact fee beginning on October 1, 2001, and repeal the fee on September 30, 2003. The DOA Budget Office estimated the fee would provide revenue of approximately \$7.0 million in 2001-02 and \$9.6 million in 2002-03.

DISCUSSION POINTS

1. Recent estimates of fee revenue show that, under the bill, the fee would generate revenues of approximately \$6.6 million in 2001-02 for nine months of collections (instead of DOA's estimate of \$7.0 million) and \$9.0 million in 2002-03 (instead of DOA's estimate of \$9.5 million).
2. When the fee was created in 1997 Act 27, the intent was to provide revenues for contaminated land cleanup programs funded from the environmental management account of the

environmental fund, mainly DNR administrative staff and state-funded response actions at contaminated sites where there is no responsible party able or willing to cleanup the property, and the Commerce brownfields grant program. The intent of the 1999 Act 9 fee increase from \$5 to \$6 and expansion to apply to used vehicles as well as new vehicles was to provide additional revenues for the Commerce brownfields grant program.

3. The 1999-01 biennial budget bill, as passed by the Legislature, would have repealed the current June 30, 2001, fee sunset date in order to provide a permanent funding source for contaminated land and brownfields cleanup programs. The Governor's partial veto maintained the June 30, 2001, sunset date. The Governor's veto message indicated that he objected to making the fee permanent and believed that the Legislature should review the need for the fee in the 2001-03 biennial budget.

4. DOA indicates that Governor Thompson did not want to make the fee permanent because it was created as a temporary, four-year fee. DOA further indicates that Governor McCallum wants to explore other funding options and that continuing the fee for two years would allow continued funding of contaminated land and brownfields cleanup programs while funding options are reviewed.

5. In 2000-01, the vehicle fee will provide approximately 44% of the estimated \$19.9 million in revenues to the environmental management account. The recreated fee would provide approximately 37% of the \$42.1 million in estimated revenues to the account during the 2001-03 biennium. The following table shows estimated revenues and expenditures for 1999-00 through 2002-03. Other revenues include solid waste tipping fees, funds transferred from the petroleum inspection fund, \$3 million transferred from tribal gaming revenues (as recommended under the bill), pesticide and fertilizer fees, and other environmental fees.

6. Under the bill, the environmental management account would have an estimated June 30, 2003, balance of \$165,000. Estimated account expenditures during the biennium would equal \$44.5 million, including \$20.5 million for DNR administration and 102.7 staff, \$15 million for Commerce brownfields grants, \$7.8 million for state-funded response, well compensation grants and household hazardous waste grants, and \$1.0 million for other agencies with 3.5 staff.

**Estimated Condition -- Environmental Management Account
of the Environmental Fund
(\$ Millions)**

	1999-00 <u>Actual</u>	2000-01 <u>Estimated</u>	2001-02 <u>Estimated</u>	2002-03 <u>Estimated</u>
Opening Balance -- July 1	\$12.1	\$3.5	\$2.6	\$0.3
Revenues				
Vehicle Environmental Impact Fee	\$ 8.7	\$8.8	\$6.7	\$9.0
Solid Waste Tipping Fees	7.1	5.1	5.2	5.3
Transfer from Petroleum Inspection Fund	1.9	1.8	1.8	1.8
Transfer from Tribal Gaming Revenues	0.0	0.0	0.5	2.5
Pesticide and Fertilizer Fees	1.3	1.3	1.3	1.3
Sanitary Permit Surcharge	0.6	0.6	0.6	0.6
Nonmetallic Mining Fees	0.0	0.0	0.5	0.5
Other Fees and Income	6.6	1.4	1.8	1.8
Interest Income	<u>0.7</u>	<u>1.1</u>	<u>0.6</u>	<u>0.5</u>
Total Revenue	\$26.9	\$19.9	\$18.9	\$23.2
 Total Revenue Available	 \$39.0	 \$23.4	 \$21.4	 \$23.5
Expenditures and Reserves				
DNR Administration	\$10.2	\$10.1	\$10.2	\$10.3
Commerce Brownfields Grants	1.0	6.4	6.5	8.5
DNR State-funded Response, Well Compensation Grants and Household Hazardous Waste Grants	4.8	3.9	3.9	3.9
Other Agencies *	0.3	0.4	0.5	0.5
Reserves and Lapses	0.0	0.0	0.0	0.2
Encumbrances and Continuing Balances **	<u>19.1</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total Expenditures	35.5	20.9	21.1	23.4
 Closing Balance -- June 30	 \$3.5	 \$2.6	 \$0.3	 \$0.2

* Includes Department of Health and Family Services groundwater and air quality standards, Department of Military Affairs emergency response training and UW System environmental education.

** Includes \$10.3 million for Commerce brownfields grants, \$3.8 million for DNR brownfields site assessment and sustainable urban development zone grants, \$3.2 million for DNR state-funded response, \$0.9 million for DNR well compensation and \$0.9 million for other encumbrances.

7. The Brownfields Study Group, a group of representatives of local and state government, businesses and other public and private entities, released a January, 2001, report that recommended that the sunset of the fee be repealed in order to maintain the fiscal health of the environmental fund. The Brownfields Study Group also recommended that the fee be increased to provide additional revenues for the Commerce brownfields grant program and the DNR site assessment grant program and to provide a stable source of funding for DNR remediation staff. The

report did not recommend a specific fee increase amount. In an April 20, 2001, letter to the Co-Chairs of the Joint Committee on Finance, the non-state agency members of the Brownfields Study Group recommended that the bill be amended to provide the vehicle environmental impact fee as a permanent source of funding for brownfields efforts and indicated the recommendation is a high priority for the group.

8. The Department of Transportation, which collects the fee when new and used vehicle titles are transferred, has indicated that the June 30, 2001, end date of the current fee, followed by an October 1, 2001, implementation date of the recreated fee, would be administratively difficult for DOT and DOT's third party agents to obtain the correct title fee from customers. DOT suggests a change in the effective date for recreating the fee to July 1, 2001, so that there would not be a stop and restart to collection of the fee. However, current law provides no authority for DOT to collect the fee after June 30, 2001. Further, the effective date of the biennial budget act is likely to be after July 1.

9. If the Committee wants to ensure that the effective date of the recreated fee would be after the budget act is signed and that there would be sufficient time for DOT to make necessary process and computer system changes, the bill could be amended to make the fee effective on the first day of the second month after the effective date of the bill instead of specifying an October 1, 2001, effective date. This would provide DOT with at least one month after the budget act is signed to make necessary changes to implement the recreated fee. The modified effective date would be consistent with the 1999 Act 9 effective date of the fee increase from the prior \$5 to the current \$6 per vehicle. If the biennial budget act becomes effective in August, 2001, the alternative effective date of the fee would still be October 1, 2001.

10. If the fee is sunset as recommended by the Governor, it may be appropriate to include a repeal date of December 31, 2003, instead of September 30, 2003, under the bill. This would ensure that after the 2003-05 biennial budget goes into effect, DOT would have sufficient time to make whatever process and computer system changes are necessary in the fall of 2003 related to the fee.

11. It could be argued that the fee should be made permanent in order to provide a permanent funding source for brownfields and contaminated land cleanup grants, state administration and state-funded response cleanup activities. During the four years that the fee has existed, conversion of the fee to permanent has generated support from proponents of state brownfields and contaminated land cleanup efforts. Further, rather than phasing out the program, the Governor and Legislature have increased brownfield grants in each biennium. Under this alternative, contaminated land and brownfields cleanup programs would be provided a stable funding source beyond a two-year timeframe.

12. The Brownfields Study Group recommended that the fee be increased to provide additional funds for contaminated land and brownfields cleanup activities. Each \$1 of fee increase would generate revenues of approximately \$1.1 million in 2001-02 and \$1.5 million in 2002-03.

13. If the fee is not recreated, if no alternative revenues are provided to the environmental management account, and if expenditure authority is not reduced to within available revenues, the Department of Administration would be responsible for ensuring that agencies limit expenditures to available revenues. If the Committee chooses to maintain the current law repeal of the fee on June 30, 2001, it could decrease the expenditure authority of appropriations from the environmental management account proportionate to the transfer. For example, DNR administrative appropriations comprise approximately 46% of the account appropriations and the Commerce brownfields grant appropriation comprises approximately 34% of the account appropriations. It should be noted that the necessary reductions of these appropriations would represent a decrease of approximately 37% in state funds spent on brownfields grants, state staff administration of contaminated land and brownfields cleanups and state-funded response cleanup. Alternatively, since the vehicle fee has been primarily linked to funding for the Commerce brownfields grant program, funding for that program could be eliminated and the remaining expenditure reductions necessary to maintain a positive balance could be made in the DNR state-funded response cleanup appropriation (currently funded at \$3,321,300 annually).

ALTERNATIVES TO BASE

1. Approve the Governor’s recommendation to recreate the \$6 per vehicle environmental impact fee beginning on October 1, 2001, and repeal the fee on September 30, 2003. Reestimate fee revenue to \$6,600,000 in 2001-02 (a decrease of \$400,000) and to \$9,000,000 in 2002-03 (a decrease of \$600,000).

Alternative 1	SEG
2001-03 REVENUE (Change to Base)	\$15,600,000
<i>[Change to Bill</i>	<i>- \$1,000,000]</i>

2. Approve the Governor’s recommendation to recreate the \$6 per vehicle environmental impact fee, with the reestimated revenues. In addition, change the effective date to the first day of the second month beginning after the effective date of the bill (instead of on October 1).

Alternative 2	SEG
2001-03 REVENUE (Change to Base)	\$15,600,000
<i>[Change to Bill</i>	<i>- \$1,000,000]</i>

3. In addition to Alternative 1 or 2, make one of the following changes in the repeal date of the fee.

a. Delete the September 30, 2003, sunset of the fee. This would make the fee permanent.

b. Sunset the fee on December 31, 2003, instead of September 30, 2003.

4. Maintain current law. (The vehicle environmental impact fee would end on June 30, 2001.) In addition, reduce the following appropriations to maintain a positive balance in the environmental management account: (a) reduce the Commerce brownfields grant appropriation by \$6,500,000 SEG in 2001-02 and \$8,500,000 SEG in 2002-03 to provide no funding for brownfields grants and site assessment grants; and (b) reduce the DNR state-funded response cleanup appropriation by \$100,000 SEG in 2001-02 and \$500,000 SEG in 2002-03.

Alternative 4	SEG
2001-03 REVENUE (Change to Base)	\$0
<i>[Change to Bill]</i>	- \$16,600,000]
2001-03 FUNDING (Change to Base)	- \$15,600,000
<i>[Change to Bill]</i>	- \$15,600,000]

5. Maintain current law. (The vehicle environmental impact fee would end on June 30, 2001.) In addition, reduce the following appropriations to maintain a positive balance in the environmental management account: (a) reduce the Commerce brownfields grant appropriation by \$2,300,000 SEG in 2001-02 and \$3,100,000 SEG in 2002-03; (b) reduce DNR administrative appropriations by \$3,000,000 SEG and 25.0 SEG positions in 2001-02 and \$4,130,000 SEG with 34.0 SEG positions in 2002-03; (c) reduce the DNR state-funded response cleanup appropriation by \$1,020,000 SEG in 2001-02 and \$1,400,000 SEG in 2002-03; (d) reduce the DNR well compensation grant appropriation by \$120,000 SEG in 2001-02 and \$160,000 SEG in 2002-03; (e) reduce the DNR household hazardous waste grant appropriation by \$50,000 SEG in 2001-02 and \$60,000 SEG in 2002-03; and (f) reduce the Department of Health and Family Services groundwater and air quality standards appropriation by \$110,000 SEG in 2001-02 and \$150,000 SEG in 2002-03 and 1.0 SEG position annually. (This would represent a 37% decrease in appropriations from the environmental management account.)

Alternative 5	SEG
2001-03 REVENUE (Change to Base)	\$0
<i>[Change to Bill]</i>	- \$16,600,000]
2001-03 FUNDING (Change to Base)	- \$15,600,000
<i>[Change to Bill]</i>	- \$15,600,000]
2002-03 POSITIONS (Change to Base)	- 35.00
<i>[Change to Bill]</i>	- 35.00]

6. Maintain current law. (The vehicle environmental impact fee would end on June 30, 2001. DOA and state agencies would have to manage the expenditures in appropriations from the environmental fund so that they are \$6,600,000 less than authorized in 2001-02 and \$9,000,000 less

than authorized in 2002-03.)

Alternative 6	SEG
2001-03 REVENUE (Change to Base)	\$0
[Change to Bill	- \$16,600,000]

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