



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873
Email: fiscal.bureau@legis.wisconsin.gov • Website: <http://legis.wisconsin.gov/lfb>

May 9, 2013

Joint Committee on Finance

Paper #575

Petroleum Inspection Fund Overview

CURRENT LAW

The segregated petroleum inspection fund receives revenue from a 2¢ per gallon petroleum inspection fee assessed on all petroleum products that enter the state, including gasoline, diesel, and heating oil. The Department of Safety and Professional Services (DSPS) is responsible for inspecting petroleum products brought into the state to assure that the product meets minimum product grade and environmental specifications. The Department of Revenue (DOR) collects the petroleum inspection fee at the same time it collects the motor vehicle fuel tax at petroleum company terminals.

The first use of the petroleum inspection fund revenues is payment of the revenue obligations issued in 1999 and 2000 to pay the petroleum environmental cleanup fund award (PECFA) claims backlog that developed during the 1990s. The PECFA program reimburses owners for a portion of the cleanup costs of discharges from petroleum product storage tank systems and home heating oil systems. After payment of debt service costs, the fund is used for: (a) PECFA claims and administration; (b) petroleum inspection and tank regulation; (c) transfers to the transportation fund; and (d) environmental and other programs in several state agencies.

GOVERNOR

The bill includes several provisions related to expenditures from the petroleum inspection fund. The provisions include: (a) transfer of DSPS responsibilities related to the PECFA program to the Department of Natural Resources (DNR); (b) transfer of most DSPS responsibilities related to petroleum inspection and tank regulation to the Department of Agriculture, Trade, and Consumer Protection (DATCP); (c) transfer of \$16 million in each year of the biennium to the transportation fund; (d) provision of \$1,500,000 annually to the Department of Military Affairs (DMA) major disaster assistance program; (e) transfer of the diesel truck idling reduction grant program from DSPS to the Department of Administration

(DOA); and (f) continuation of base funding for other programs with appropriations from the fund.

DISCUSSION POINTS

1. This paper provides a general overview of the petroleum inspection fund, the estimated condition of the fund during the 2013-15 biennium, and a description of uses of the fund. This paper does not include an alternatives section. Separate budget papers provide detail on various specific budget issues, and include discussion of alternatives, for the following issues: (a) transfer of the PECFA program from DSPS to DNR; (b) PECFA awards amount; (c) transfer of the petroleum inspection and tank regulation program from DSPS to DATCP; and (d) provision of funding to the DMA major disaster assistance program. On April 25, 2013, the Joint Committee on Finance reduced funding for the DMA disaster assistance program by \$2,030,900 during 2013-15 from the amount recommended by the Governor.

2. The first use of petroleum inspection fees is payment of the revenue obligations that were issued to pay the 1990s PECFA claim backlog. The state issued a cumulative total of \$387 million in PECFA revenue obligations. As of May 1, 2013, the total amount of outstanding revenue obligations is \$188.6 million (almost half of the originally-issued amount), which includes \$117.46 million in long-term obligations and \$71.15 million in short-term commercial paper with terms generally less than 90 days. The state is making interest only payments on the short-term obligations. The state made payments to the revenue obligation debt service trustee account of \$11.2 million in 2009-10, \$5.9 million in 2010-11 and \$7.8 million in 2011-12. The amounts were higher in years prior to 2009-10, and were lower during 2009-10 through 2011-12, because the state restructured debt during the last two biennia to defer principal payments, transfer funds to the transportation fund, and help balance the general fund. Debt service costs will increase to approximately \$30.1 million in 2012-13, approximately \$30.8 million annually in 2013-14 through 2015-16, and at least \$16.0 million in 2016-17, because current debt service payment schedules require repayment of principal for the long-term obligations to resume July 1, 2013. Repayment of long-term obligations will be completed on July 1, 2017. Based on the current repayment practice by DOA to only make interest payments on the short-term obligations, the remaining principal amount owed would be \$71.15 million on July 1, 2017, which is all of the current outstanding short-term commercial paper. However, any undesignated petroleum inspection fund balances can be used to pay additional debt service beyond the minimum required amounts.

3. Petroleum inspection fees have been used as a funding source for the PECFA program since 1988. The state has paid a cumulative total of over \$1.52 billion in PECFA claims.

4. The table shows the estimated condition of the petroleum inspection fund from 2011-12 through 2014-15. Under the bill, as modified by the Committee on April 25, 2013, the estimated petroleum inspection fund balance would be approximately \$10.4 million on June 30, 2015. The revenue obligation debt service amounts are shown as a reduction to revenues because amounts must be transferred, in monthly amounts, to be held for debt service payment by a trustee, before any other expenditures are made from the fund. The estimated 2012-13 expenditures incorporate the August 10, 2012, Joint Committee on Finance approval of an additional \$1,000,000

for the DMA state disaster assistance program appropriation (shown under "other programs") and the February 25, 2013, Committee approval of an additional \$3,200,000 for DSPS payment of PECFA claims. The table does not include any debt service payments, beyond the minimum requirements, that could be made from the available fund balance.

**Petroleum Inspection Fund Estimated Condition - AB 40
2011-12 Through 2014-15, as Modified by Joint Finance on April 25, 2013**

	2011-12 <u>Actual</u>	2012-13 <u>Estimated</u>	2013-14 <u>Bill</u>	2014-15 <u>Bill</u>
Opening Balance -- July 1	\$2,570,900	\$17,869,900	\$14,466,900	\$12,187,200
Revenues				
Petroleum Inspection Fee	\$73,956,600	\$73,000,000	\$73,200,000	\$73,500,000
Revenue Obligation Debt Service	-7,833,500	-30,100,000	-30,800,000	-30,800,000
Petroleum Bulk Tank Fees and Other	<u>262,800</u>	<u>215,000</u>	<u>195,000</u>	<u>195,000</u>
Total Revenues	\$66,385,900	\$43,115,000	\$42,595,000	\$42,895,000
 Total Revenue Available	 \$68,956,800	 \$60,984,900	 \$57,061,900	 \$55,082,200
Expenditures and Reserves				
PECFA Awards	\$6,970,000	\$4,130,000 *	\$4,550,000	\$4,550,000
PECFA Administration - DSPS and DNR	2,238,200	2,355,500	2,476,400	2,478,500
Petroleum Inspection - DSPS and DATCP	4,627,500	4,392,800	5,253,100	5,063,500
Transportation Fund	6,608,800	6,675,500	6,608,300	6,608,300
Other Programs	11,142,500	9,464,200	9,486,900	10,303,200
Reserves and Lapses	<u>0</u>	<u>0</u>	<u>500,000</u>	<u>500,000</u>
Total Expenditures	\$31,587,000	\$27,018,000	\$28,874,700	\$28,714,700
 Less Transfer to Transportation Fund	 \$19,500,000	 \$19,500,000	 \$16,000,000	 \$16,000,000
 Cash Balance	 \$17,869,800	 \$14,466,900	 \$12,187,200	 \$10,367,500
 Encumbrances, Continuing Balances	 -\$180,800	 -\$453,300	 \$0	 \$0
 Closing Available Balance -- June 30	 \$17,689,000	 \$14,013,600	 \$12,187,200	 \$10,367,500

*Shows estimated expenditures of \$4,130,000, rather than the authorized \$5,330,000 because it is anticipated \$1.2 million in potential DOT claims will be paid in 2013-14 instead of 2012-13.

5. During the 2013-15 biennium, petroleum inspection fee revenues are expected to total more than \$73 million annually. Expenditures, including debt service costs and the transfer to the transportation fund, will total \$75.7 million in 2013-14 and \$75.5 million in 2014-15. The attachment shows all appropriations from the petroleum inspection fund, including actual expenditures in 2011-12, estimated amounts in 2012-13, and amounts provided under the bill, as modified by the Committee on April 25, 2013. Expenditures for PECFA debt service, PECFA claim payments, PECFA administration, and petroleum inspection and tank regulation, will total approximately \$43.6 million annually, with 60.3 positions, equaling approximately 58% of total

expenditures during the 2013-15 biennium. Transfers to the transportation fund and Department of Transportation (DOT) of \$22.6 million annually, with 4.0 positions, will equal almost 30% of total expenditures.

6. During the 2013-15 biennium, expenditures for other programs will equal approximately \$9.5 million annually, with 32.1 positions, equaling approximately 12% of total expenditures. Appropriations included within other programs include: (a) Department of Revenue (DOR) collection of the petroleum inspection fee; (b) petroleum inspection fee refunds to eligible airlines; (c) DSPTS diesel truck idling reduction grant program (transferred to DOA under the bill); (d) DMA major disaster assistance program; and (e) contaminated land cleanup, clean air, and environmental programs in DNR, DATCP, and DMA.

7. The bill would support 96.4 state positions and delete 9.5 currently authorized SEG positions as follows: (a) DNR would receive 3.0 less SEG positions for PECFA administration than were authorized for DSPTS; and (b) DATCP would receive 6.5 less SEG positions for petroleum inspection and tank regulation than were authorized for DNR.

8. During the years 2001-02 through 2012-13, several biennial budgets required transfers totaling \$181.0 million from the balance of the petroleum inspection fund to other funds. This includes: (a) \$109.4 million to the general fund; (b) \$66.8 million to the transportation fund; (c) \$4.0 million to the former recycling and renewable energy fund; and (d) \$0.8 million to the environmental management account of the environmental fund.

9. DOA has the discretion to use any undesignated petroleum inspection fund balances for payment of additional PECFA revenue obligation debt service. The petroleum inspection fund balance is also available for appropriation by the Legislature to any authorized use of the fund.

Prepared by: Kendra Bonderud
Attachment

ATTACHMENT

Appropriations from the Petroleum Inspection Fund, 2011-12 Through 2014-15

		<u>2011-12</u> <u>Expenditures</u>	<u>2012-13</u> <u>Appropriated</u>	<u>2012-13</u> <u>Positions</u>	<u>2013-14</u> <u>Bill</u>	<u>2014-15</u> <u>Bill</u>	<u>2014-15</u> <u>Positions</u>
<i>Administration</i>							
(1)(sa)	Diesel truck idling reduction grants	see DSPS	see DSPS		\$1,000,000	\$1,000,000	0.00
(1)(s)	Diesel truck idling reduction grant administration	see DSPS	see DSPS	see DSPS	73,700	73,700	1.00
<i>Agriculture, Trade and Consumer Protection</i>							
(1)(r)	Unfair Sales Act	\$213,600	\$213,600	2.35	222,000	228,500	2.35
(1)(s)	Weights and Measures	805,891	771,400	6.00	786,400	790,000	6.00
(1)(t)	Petroleum inspection	see DSPS	see DSPS	see DSPS	5,153,100	4,963,500	38.00
<i>Military Affairs</i>							
(3)(r)	State emergency response board	462,020	462,100	0.00	462,100	462,100	0.00
(3)(s)	Major disaster assistance	2,559,410*	1,000,000*	0.00	257,900	711,200	0.00
<i>Miscellaneous Appropriations</i>							
(4)(r)	Petroleum allowance	487,218	600,000	0.00	600,000	600,000	0.00
(4)(w)	Transfer to transportation fund	6,258,500	6,258,500	0.00	6,258,500	6,258,500	0.00
(4)(wc)	Transfer to environmental fund – environmental repair and well compensation	see DNR	see DNR		985,000	985,000	0.00
(4)(we)	Transfer to environmental fund – groundwater management	see DNR	see DNR		719,800	719,800	0.00
<i>Natural Resources</i>							
(2)(bq)	Vapor recovery administration	77,701	95,400	1.00	95,500	95,500	1.00
(2)(br)	Air management - mobile sources	1,384,623	1,393,800	4.50	1,358,000	1,358,000	4.50
(2)(dw)	Environmental repair, petroleum spills and PECFA administration	1,650,938	1,674,500	18.75	3,544,500	3,546,600	34.55
(2)(eu)	PECFA Awards	see DSPS	see DSPS	see DSPS	4,550,000	4,550,000	0.00
(2)(ew)	Abandoned tank removal	see DSPS	see DSPS	see DSPS	100,000	100,000	0.00
(2)(mu)	Transfer to environmental fund - environmental repair and well compensation	985,000	985,000	0.00	See Miscellaneous Appropriations		
(3)(ms)	Pollution prevention	12,367	84,900	1.00	117,500	117,500	1.00
(4)(mw)	Transfer to environmental fund - groundwater management	719,800	719,800	0.00	See Miscellaneous Appropriations		

		2011-12	2012-13	2012-13	2013-14	2014-15	2014-15
		<u>Expenditures</u>	<u>Appropriated</u>	<u>Positions</u>	<u>Bill</u>	<u>Bill</u>	<u>Positions</u>
(8)(mq)	Mobile source air pollution	\$873,179	\$878,100	0.50	\$875,500	\$892,900	0.50
(9)(mq)	Mobile source air pollution	18,875	30,400	0.50	191,600	191,600	2.50
<i>Revenue</i>							
566 (1)(s)	Petroleum inspection fee collection	117,547	123,500	1.00	120,500	120,500	1.00
<i>Safety and Professional Services</i>							
(2)(r)	Petroleum inspection	4,627,469	4,392,300*	44.50	100,000	100,000	0.00
(2)(sm)	Diesel truck idling reduction grants	956,399	1,000,000	0.00	see DOA	see DOA	see DOA
(2)(sn)	Diesel truck idling reduction grant administration	77,944	76,000	1.00	see DOA	see DOA	see DOA
(2)(v)	PECFA Awards	6,969,963	5,330,000*	0.00	see DNR	see DNR	see DNR
(2)(vm)	Abandoned tank removal	92,161	100,000	0.00	see DNR	see DNR	see DNR
(2)(w)	PECFA Administration	1,885,963	1,949,600*	20.80	see DNR	see DNR	see DNR
<i>Transportation</i>							
(4)(dq)	Air quality - demand management	<u>350,284</u>	<u>351,600</u>	<u>4.00</u>	<u>349,800</u>	<u>349,800</u>	<u>4.00</u>
Subtotal Petroleum Inspection Fund Appropriations		\$31,586,852	\$28,490,500	105.90	\$27,921,400	\$28,214,700	96.40
Additional Expenditures							
Biennial Budget Act Transfers to the Transportation Fund		\$19,500,000	\$19,500,000	0.00	\$16,000,000	\$16,000,000	0.00
PECFA Revenue Obligation Debt Service Deposits to Trustee Account		7,833,533	30,100,000	0.00	30,800,000	30,800,000	0.00
Reserves and Continuing Balances		<u>0</u>	<u>0</u>	<u>0.00</u>	<u>953,300</u>	<u>500,000</u>	<u>0.00</u>
Total Expenditures, Petroleum Inspection Fund		\$58,920,385	\$78,090,500	105.90	\$75,674,700	\$75,514,700	96.40

*Includes the following Joint Finance Committee Approvals of Appropriation Changes:

- (a) Department of Safety and Professional Services, February 25, 2013:
 - PECFA Awards, increased \$3,200,000
 - PECFA administration, decreased \$600,000
 - Petroleum inspection administration, decreased \$800,000
- (b) Department of Military Affairs, December, 2011, and August, 2012:
 - Disaster assistance, increased a total of \$2,000,000.
- (c) Department of Military Affairs, April 25, 2013:
 - Disaster assistance, decreased \$1,242,100 in 2013-14 and \$788,800 in 2014-15.