



Legislative Fiscal Bureau

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May 19, 2009

Joint Committee on Finance

Paper #597

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

[LFB 2009-11 Budget Summary: Page 487, #7]

CURRENT LAW

The Department of Transportation (DOT) collects a vehicle environmental impact fee of \$9 per vehicle at the time of titling new and used vehicles. DOT deposits the fees in the environmental management account of the segregated environmental fund. The fee is currently sunset on December 31, 2009.

The fee was created effective December 1, 1997, at the amount of \$5 per vehicle. Between December 1, 1999, and September 30, 2001, the fee was \$6 per vehicle. The fee was increased to \$9 effective October 1, 2001. The environmental management account provides funding for Department of Commerce brownfields grants, DNR brownfield site assessment and green space grants, and DNR administration of contaminated land cleanup, groundwater management, state-funded remediation actions, and debt service for general obligation bonds for remedial action. Vehicle environmental impact fee revenue of \$11,739,200 in 2007-08 represented over 50% of the \$23.1 million in environmental management account revenue.

GOVERNOR

Repeal the current December 31, 2009, sunset of the \$9 per title vehicle environmental impact fee, making the fee permanent. The administration estimated continuing the fee would generate additional revenue of \$5,805,000 in 2009-10 and \$11,725,000 in 2010-11.

DISCUSSION POINTS

1. Titling of new, or transferring used, vehicles has declined by 20% since 2003-04,

from over 1.5 million vehicles to an anticipated total of slightly over 1.2 million in 2008-09. Vehicle environmental impact fee revenue is expected to total \$10,910,000 in 2008-09, which is 15% less than the \$12,906,000 estimated in the spring of 2007, and would be a 7.1% decrease from the \$11,739,200 collected in 2007-08. Vehicle environmental impact fee revenues are shown in the following table.

Vehicle Environmental Impact Fee Revenue

<u>Year</u>	<u>Revenue</u>	<u>Number of Vehicles</u>	<u>% Change</u>
2003-04	\$13,547,945	1,505,327	-0.5%
2004-05	12,745,893	1,416,210	-5.9
2005-06	12,825,256	1,425,029	0.6
2006-07	12,070,470	1,341,163	-5.9
2007-08	11,739,230	1,304,359	-2.7
2008-09 (est.)	10,910,000	1,212,000	-7.1

2. The fee would be expected to generate \$11.0 million in 2009-10 and \$11.25 million in 2010-11. This is \$780,000 less than estimated by the administration (\$305,000 less in 2009-10 and \$475,000 less in 2010-11).

3. The fee was created, and increased to the current \$9 rate, largely to fund brownfields grant programs, other contaminated land cleanup grant programs, state administrative staff who work on contaminated land and groundwater activities, state-funded remedial response actions at contaminated sites where there is no responsible party able or willing to cleanup the property, and debt service for general obligation bonds issued for contaminated land cleanup. The fee sunset has been extended for two years at a time in each of the past six biennial budgets (since 1997-99).

4. It could be argued that extension of the fee for two years at a time for the past 12 years has perpetuated a level of uncertainty about ongoing funding levels for contaminated land and brownfields cleanup programs. Others would argue that review of the revenue source every two years provides an opportunity to review other funding sources. However, no other funding source has been adopted to replace the vehicle environmental impact fee.

5. A separate budget paper describes the environmental management account revenues and expenditures and the Governor's recommendation to increase the solid waste tipping fee to provide additional revenue to the environmental management account.

6. Some would argue that the vehicle title fee is an appropriate funding mechanism for contaminated land programs because it has a broad base of payers throughout the state, with 1.2 to 1.4 million motor vehicles being titled annually. In addition, there are some disposal or contamination problems related to vehicles and petroleum products, and some road construction projects lead to discovery and cleanup of contamination from petroleum tanks or other hazardous substances.

7. Others suggest that the state should not continue to use the vehicle fee to fund

contaminated land cleanup programs, but rather, any vehicle title fees collected by the Department of Transportation should be used for transportation-related activities.

8. Some argue that the vehicle environmental impact fee should be made permanent in order to provide a long-term funding source for brownfields and contaminated land cleanup grants, state administration, and state-funded response cleanup activities. During the 12 years that the fee has existed, making the fee permanent has generated support from proponents of state brownfields and contaminated land cleanup efforts. Under the bill, contaminated land and brownfields cleanup programs would be provided a stable funding source beyond a two-year timeframe.

9. If the \$9 vehicle environmental impact fee is not continued after the current law end date of December 31, 2009 (Alternative 5), revenues during the biennium would be approximately \$16.75 million less than under the bill. If the Governor's recommendations are approved to convert debt service costs from GPR to SEG, environmental management account revenues would have to be used for debt service costs before any of the other expenditures from the account. In 2010-11, after debt service payments, approximately \$9.9 million of revenue would be available to fund almost \$24 million of authorized expenditures. Either significant alternative revenues or expenditure reductions of almost 60% would be needed to fund expenditures other than debt service.

10. If the Committee chooses not to continue the \$9 vehicle environmental impact fee, and wants to maintain expenditures from the account at the amounts included in the bill, the Committee could provide an alternative revenue source. For example, increasing the solid waste tipping fees deposited in the environmental management account beyond the tipping fee increases included in the bill could be considered. It is likely tipping fee increases of \$1.50 to \$2.00 per ton would be required to replace the vehicle environmental impact fee of \$11.25 million in 2010-11.

11. If the Committee does not make the fee permanent, it could consider continuing the fee for four years to December 31, 2013. This would allow the program to have assured continuance of this fee for two biennia instead of one. (Alternative 2). Alternatively, the Committee could again consider continuing the fee for two years, to December 31, 2011. This would allow the Legislature to review the appropriate type and level of revenue sources for the environmental management account in the 2011-13 biennial budget. (Alternative 3).

12. As vehicle title transfers have decreased, decreases in vehicle environmental impact fee revenue have provided insufficient revenue for authorized expenditures and transfers to the general fund allocated under 2007-09 budget provisions. It could be argued a fee increase would be appropriate because it has not been increased for eight years and is needed to restore total vehicle fee revenues closer to the level generated four to five years ago when a greater number of vehicle titles were transferred. For example a \$1 increase per vehicle title to \$10 beginning in 2010 would generate additional revenue of approximately \$1,860,000 in the 2009-11 biennium, including \$610,000 in 2009-10 and \$1,250,000 in 2010-11 (Alternative 4).

13. Others would indicate that a fee increase is not appropriate during difficult economic conditions.

ALTERNATIVES

1. Approve the Governor's recommendation to repeal the December 31, 2009, sunset of the \$9 vehicle environmental impact fee, making the fee permanent. Revenue would be reestimated from the fee continuance to \$5,500,000 in 2009-10 and \$11,250,000 in 2010-11. (This is a decrease of \$780,000 from the bill, including \$305,000 in 2009-10 and \$475,000 in 2010-11.)

ALT 1	Change to Bill
	Revenue
SEG	- \$780,000

2. Approve a continuation of the \$9 vehicle environmental impact fee until December 31, 2013 (four years).

ALT 2	Change to Bill
	Revenue
SEG	- \$780,000

3. Approve a continuation of the \$9 vehicle environmental impact fee until December 31, 2011 (two years).

ALT 3	Change to Bill
	Revenue
SEG	- \$780,000

4. In addition to Alternative 1, 2, or 3, increase the vehicle environmental impact fee by \$1 for title transfers on or after January 1, 2010. This would generate additional revenue of approximately \$1,860,000 in the biennium (\$610,000 in 2009-10 and \$1,250,000 in 2010-11).

ALT 4	Change to Bill
	Revenue
SEG	\$1,860,000

5. Delete provision. The vehicle environmental impact fee would end on December 31, 2009.

ALT 5	Change to Bill
	Revenue
SEG	- \$17,530,000

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