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Fiscal Note

Fiscal Services Division

HF 2464 – Petroleum Tanks Fund and Financing Program (LSB5257HZ)
Analyst: Jeff Robinson (Phone: 515-281-4614) (jeff.robinson@legis.iowa.gov)
Fiscal Note Version – New

Description

House File 2464 relates to the Iowa Comprehensive Petroleum Underground Storage Tank Fund and Board (UST Fund and UST Board) and to related programs and program financing. The bill:

- Strikes an annual $14.0 million transfer from the **Statutory Allocations Fund** to the **UST Fund**. The change is effective beginning with the third quarter of FY 2017.
- Strikes an annual $3.0 million transfer from the Statutory Allocations Fund to the Department of Agriculture and Land Stewardship (DALS) **Renewable Fuel Infrastructure Fund**. The change is effective beginning FY 2018.
- Extends the existing **Environmental Protection Charge** (EPC) for six months, to December 31, 2016.
- Makes conforming changes.

Background

Iowa's EPC is set to expire at the end of FY 2016. The EPC is equal to $0.01 per petroleum gallon. The EPC generates revenue of approximately $21.6 million per year. Although originally designed as a financing mechanism for the cleanup of petroleum contamination, for many years the EPC has been a revenue source for the Road Use Tax Fund (RUTF). Underground petroleum storage tank cleanup has instead been financed at first through an annual allocation of motor vehicle use tax, and later (and currently) through an annual allocation from the Statutory Allocation Fund.

While the EPC is set to expire at the end of FY 2016, under current law the annual $14.0 million allocation to UST cleanup does not expire. In addition, the Renewable Fuel Infrastructure Fund receives an annual $3.0 million allocation from the Statutory Allocations Fund and this allocation does not expire.

The Statutory Allocations Fund receives funding from trailer registration fees, driver's license fees, and other fees. Any revenue in the Fund that is not specifically allocated to another purpose is transferred to the RUTF. The scheduled expiration of the EPC will reduce RUTF revenue by $21.5 million per year. This bill delays the repeal of the EPC by six months and the delay will result in additional FY 2017 RUTF revenue when compared to current law. The bill eliminates two ongoing annual allocations totaling $17.0 million. Eliminating the two allocations will also increase RUTF revenue and offset much of the revenue decrease associated with the EPC expiration. A 2014 ***Issue Review*** describing the **EPC** is available from the Legislative Services Agency (LSA).

The UST Program, UST Fund, and UST Board were created in HF 447 (Petroleum Underground Storage Tank Act of 1989). The main purpose of the Program is to provide environmental remediation assistance, site insurance, and loan financing for underground petroleum storage tank locations. A 2014 ***Issue Review*** describing the **UST Program** is available from the LSA.

Updating the 2014 ***Issue Review*** analysis, the UST Program had a balance at the end of FY 2015 of $33.7 million and outstanding cleanup obligations of $29.3 million. During the course of FY 2016 the UST Fund will receive $14.0 million from the Statutory Allocations Fund and will make payments for remedial claims and for administration. The projected UST Fund balance at the conclusion of FY 2016 is $36.3 million and outstanding claim obligations are expected to total $22.8 million.

While an increase in the expected total cleanup cost for known claims has reduced the future financial condition of the UST Program somewhat, the projected balances for FY 2016 through FY 2019 are expected to be sufficient to pay all existing and future Fund obligations without the continued revenue transfer from the Statutory Allocations Fund after December 2016.

The Renewable Fuels Infrastructure Fund is administered by the DALS and the **Renewable Fuel Infrastructure Board**. The sources of revenue for the Fund include the annual $3.0 million transfer from the Statutory Allocations Fund and interest. The Fund is used for the following purposes:

- Up to $50,000 annually for administration.
- Up to 1.5% (about $45,000 per year) for program marketing.
- Renewable fuel infrastructure incentives for petroleum retailers and terminals. The purpose of the Program is to improve motor fuel distribution sites by installing, replacing, or converting infrastructure to be used to store, blend, or dispense renewable (ethanol and biodiesel) fuel.
- Since FY 2012, the annual Agriculture and Natural Resources Appropriation Act has appropriated $500,000 each year from the Renewable Fuel Infrastructure Fund to the DALS for motor fuel inspection.

Over four fiscal years (FY 2012 through FY 2015), the Renewable Fuel Infrastructure Fund:

- Received $12.0 million from the Statutory Allocations Fund.
- Received $87,000 in interest and other revenue.
- Transferred $2.0 million to the DALS for motor fuel inspection.
- Expended $200,000 on administration.
- Expended $8.5 million on retail and terminal motor fuel infrastructure incentives.
- Increased the ending balance by $1.4 million.

Fiscal Impact

The bill strikes quarterly allocations from the Statutory Allocations Fund to the UST Fund and the Renewable Fuel Infrastructure Fund. The UST Fund will cease to receive quarterly allocations after the second quarter of FY 2017 and the Renewable Infrastructure Fund will cease to receive quarterly allocations at the end of FY 2017. The changes will have the following fiscal impacts:

- UST Fund, negative $7.0 million for FY 2017, negative $14.0 annually thereafter.
- Renewable Fuel Infrastructure Fund, negative $3.0 million annually after FY 2017.
- RUTF, positive $17.8 million for FY 2017, positive $17.0 million thereafter.

Current projections indicate that the existing UST Fund has a sufficient balance to pay all remaining Fund obligations and to provide a funding source for future petroleum cleanup identified as program-eligible under current law. The Renewable Fuel Infrastructure Fund had a balance of $3.4 million at the end of FY 2015 and a similar cash balance at the end of February 2016.

The $17.8 million in FY 2017 and $17.0 million annually thereafter in increased RUTF revenue will become part of the RUTF distribution formula and will be used for city, county, and state road construction and maintenance activities. The increase will offset much of an annual $21.6 million current law RUTF revenue decrease scheduled to begin in FY 2017.

Sources

Legislative Services Agency analysis
Department of Transportation
Department of Natural Resources
Iowa UST Board
State of Iowa accounting system

/s/ Holly M. Lyons

April 21, 2016
