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# PECFA -- Revenue Obligation Authority
# (Commerce -- Building and Environmental Regulation)

[LFB 2001-03 Budget Summary: Page 189, #1]

## CURRENT LAW

The petroleum environmental cleanup fund award (PECFA) program reimburses owners for a portion of the cleanup costs of discharges from petroleum product storage tank systems and home heating oil tank systems. The program is funded from the segregated petroleum inspection fund. Revenue to the fund is generated from the 3¢ per gallon petroleum inspection fee assessed on all petroleum products that enter the state, including gasoline, diesel and heating oil. 1999 Act 9 authorized the Building Commission to issue revenue obligations of up to $270,000,000 in principal amount (typically long-term bonds or short-term notes), to fund the payment of claims under the PECFA program. The revenue obligations are repaid from petroleum inspection fees. The PECFA program is appropriated $94,131,700 each year in a biennial appropriation for PECFA awards. Commerce reduces expenditures from this appropriation by the amount necessary to pay revenue obligation debt service and maintain a positive balance in the petroleum inspection fund

## GOVERNOR

Provide $100,000,000 in revenue obligation authority for the PECFA program, to increase revenue obligation authority under the program from $270 million to $370 million.

## DISCUSSION POINTS

1. The backlog of PECFA claims that had been received and had not been paid exceeded $200 million during the months of June, 1997, through February, 2000. By February, 2000, Commerce had reviewed but not paid almost $210 million in claims. Prior to the 1999 Act 9

authorization of revenue obligations, Commerce used an appropriation of $94,131,700 annually for payment of PECFA claims.

2. Issuance of revenue obligations under the 1999 Act 9 authorization allowed Commerce to pay the backlog of PECFA claims. Between March and December of 2000, $250 million of revenue obligation proceeds were used to pay PECFA claims. Commerce and DOA anticipate that the remaining $20 million in authorized revenue obligations will be issued in the summer of 2001.

3. Currently, claims are generally being reviewed and paid within 30 to 60 days of receipt. As of April 1, 2001, Commerce had received 401 PECFA award applications totaling $24.1 million that had not been paid. The backlog consisted of two components, claims where review had not been completed and claims that have been reviewed and are awaiting payment. The first component consisted of 287 claims for $18.8 million that were being reviewed by staff. The second component of the backlog consisted of 114 claims for $5.3 million that had been reviewed and would be paid within approximately 30 days.

4. As of April 1, 2001, a total of over $1 billion in PECFA payments have been made for partial or full cleanup at 9,105 sites. Of the total payments, $567.5 million (55.1%) has paid for completion of cleanup at 6,297 closed sites (69.2%). The remaining $462.5 million (44.9%) has paid for partial cleanup at 2,808 open sites (30.8%). In the fall of 2000, Commerce officials updated the estimated cumulative cost of the program to approximately $1.8 billion to clean up a total of approximately 16,000 sites. This means that there may be unreimbursed costs of approximately $800 million to complete cleanup at 2,808 open sites that have received at least one PECFA payment and approximately 6,900 sites for which no claims have been received.

5. The revenue obligations that were issued in 2000 were structured as a combination of $170 million in long-term debt with an interest rate of 5.5% and $80 million in short-term commercial paper with an interest rate of approximately 4.5 to 5%. The claimants who received PECFA reimbursement with the proceeds of the revenue obligations would have otherwise waited approximately three years for reimbursement, and many of these claimants would have received reimbursement of loan interest expense at an interest rate of 8.5% to 10.5%.

6. The amount of PECFA claims received exceeded $160 million annually in each of 1995-96, 1996-97 and 1997-98. The amount of claims received has decreased since, with $76 million received in 1998-99 and $111 million in 1999-00. During 2000-01, the program received $85.1 million in claims as of April 1, 2001, and will likely receive a total of approximately $110 million in claims in 2000-01.

7. During the last two years, PECFA claims have been received at a rate of approximately $8.8 million per month. If the current rate of claims continues, approximately $210 million in claims would be received during the 2001-03 biennium. Commerce officials estimate that approximately $190 million to $235 million in claims might be received during 2001-03, which represents between a 10% decrease and a 30% increase in the annual rate of claims received. Commerce estimates that the amount of claims received will decrease each year beginning in 2003-04.

8. Debt service on the current $270 million in revenue obligations is anticipated to equal approximately $26 million in each of 2001-02 and 2002-03. Commerce estimates that if additional revenue obligations of $100 million are issued during the 2001-03 biennium, with $25 million of it issued in 2001-02 and $75 million in 2002-03, debt service would increase by approximately $2 million in 2001-02, $9 million in 2002-03 and approximately $9 to $12 million annually beginning in 2003-04. The amount of debt service would vary, depending on the structure and timing of the issuance, and the amount of short-term versus long-term debt. For example, the current $80 million in short-term obligations is structured for payments of interest only until it is either converted to long-term debt or repaid.

9. Petroleum inspection fee revenues of approximately $110 to $112 million annually are expected during the 2001-03 biennium. The following table shows the estimated condition of the petroleum inspection fund. Of this amount, $13.7 million would be appropriated for: (a) Commerce petroleum tank and inspection programs; (b) Department of Revenue collection of the petroleum inspection fee; (c) petroleum inspection fee refunds to eligible airlines; and (d) brownfields, clean air and environmental programs in Commerce, the Department of Natural Resources, the Department of Transportation, the Department of Agriculture, Trade and Consumer Protection and the Department of Military Affairs. The remaining funds would be used for PECFA awards, PECFA revenue obligation debt service and Commerce and DNR PECFA administration.

**Petroleum Inspection Fund Estimated Condition**
**($ In Millions)**

| | 1999-00 Actual | 2000-01 Estimated | 2001-02 Estimated | 2002-03 Estimated |
|---|---|---|---|---|
| Opening Balance -- July 1 | $10.5 | $32.5 | $13.9 | $8.2 |
| **Revenues** | | | | |
| Petroleum Inspection Fee | $110.4 | $113.3 | $111.3 | $111.9 |
| Revenue Obligation Proceeds | 233.0 | 20.0 | 45.0 | 75.0 |
| Revenue Obligation Debt Service & Issuance | -7.9 | -13.7 | -28.0 | -35.0 |
| Interest on Revenue Bond Proceeds | 1.0 | 0.3 | 0.3 | 0.3 |
| Interest Income on Fund and Other | 0.8 | 1.2 | 0.5 | 0.5 |
| Petroleum Bulk Tank Fees | 0.0 | 0.0 | 1.7 | 0.3 |
| Total Revenue | $337.4 | $121.0 | $130.8 | $152.9 |
| Total Revenue Available | $347.9 | $153.6 | $144.7 | $161.2 |
| **Expenditures and Reserves** | | | | |
| PECFA Awards and Administration | $91.7 | $97.0* | $78.3* | $71.3* |
| PECFA Awards from Revenue Obligations | 207.4 | 43.7 | 45.0 | 75.0 |
| Other Programs | 11.1 | -0.5 | 13.7 | 13.7 |
| Reserves and Lapses | 0.0 | -0.5 | -0.5 | -0.4 |
| Encumbrances and Continuing Balances | 5.2 | 0.0 | 0.0 | 0.0 |
| Total Expenditures | $315.3 | $139.6 | $136.5 | $159.6 |
| Closing Balance -- June 30 | $32.5 | $13.9 | $8.2 | $1.6 |

*Assumes expenditures from the PECFA awards appropriation would be reduced to provide sufficient revenues to pay revenue obligation debt service costs.

10. The estimated annualized debt service costs of $35 million, beginning in 2003-04, would represent a debt service coverage ratio of approximately 3.2:1. That is, there would be approximately $3.20 of petroleum inspection fee revenue for every $1 of debt service to ensure sufficient revenues to pay debt service. It is possible that obligations could be authorized in excess of the cumulative total of $370 million under the bill if needed in the future, while maintaining a debt service ratio of between 2:1 to 3:1. A higher debt service coverage ratio generally makes the obligations more attractive in the bond market.

11. Authorized expenditures from the $94,131,700 PECFA awards appropriation would need to be reduced to recognize funds that are dedicated to pay revenue obligation debt service costs. After payment of revenue obligation debt service costs and all other petroleum inspection fund appropriations under the bill, there would be sufficient revenues to expend from the PECFA awards appropriation approximately $75 million in 2001-02 and $68 million in 2002-03. The PECFA awards appropriation amount could be reduced to more accurately reflect the amounts available for awards.

12. Under the bill, there would be up to $263 million available for PECFA awards during the 2001-03 biennium, including up to $143 million in cash from the PECFA awards appropriation and $120 million in revenue obligation proceeds ($20 million of which is currently authorized). This compares to the estimated claim demand of $190 to $235 million during 2001-03. If demand is at the low end of the estimated range, up to $73 million in revenue obligation proceeds will not be needed for PECFA claims until at least 2003-04. If demand is at the high end of the estimated range, approximately $28 million in revenue obligation proceeds will not be needed until 2003-04. If demand exceeds estimates, the entire $100 million may be needed during 2001-03.

13. If claim demand decreases after 2002-03, it is possible that $100 million in revenue obligation proceeds might be sufficient to fund long-term bonding needs of the program. If demand increases above current estimates, it is possible that there would be a need for additional revenue obligations or review of overall funding for the program in 2003-05.

14. If the Committee chooses to approve a level of revenue obligation authority sufficient for PECFA needs during the 2001-03 biennium, it could authorize $72 million instead of $100 million in revenue obligations, and review the need for revenue obligation authority during 2003-05 biennial budget deliberations. However, it is likely that if the remaining $28 million of requested authority is not needed during the 2001-03 biennium, it would be utilized in 2003-04. If authorized at this time, it could be issued for PECFA payments as needed by Commerce.

## ALTERNATIVES TO BASE

### A. Revenue Obligation Authority

1. Approve the Governor's recommendation to provide $100,000,000 in revenue obligation authority for the PECFA program.

| Alternative A1 | BR |
|---|---|
| **2001-03 BONDING** (Change to Base) | $100,000,000 |
| *[Change to Bill* | *$0]* |

2. Approve $72 million in revenue obligation authority for the PECFA program.

| Alternative A2 | BR |
|---|---|
| **2001-03 BONDING** (Change to Base) | $72,000,000 |
| *[Change to Bill* | *- $28,000,000]* |

3. Maintain current law.

| Alternative A3 | BR |
|---|---|
| **2001-03 BONDING** (Change to Base) | $0 |
| *[Change to Bill* | *- $100,000,000]* |

## B. PECFA Awards Appropriation

1. Decrease the PECFA awards appropriation by $19,131,700 in 2001-02 to provide $75,000,000 and by $26,131,700 in 2002-03 to provide $68,000,000 to reflect the reduction in amounts available for awards due to allocation of petroleum inspection funds to revenue obligation bond debt service.

| Alternative B1 | SEG |
|---|---|
| **2001-03 FUNDING** (Change to Base) | - $45,263,400 |
| *[Change to Bill* | *- $45,263,400]* |

2. Maintain current law. (Commerce would have to reduce award expenditures to recognize funds dedicated for revenue obligation bond debt service.)

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