SB 678

Department of Legislative Services

Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE

Senate Bill 678 (Senator Conway)
Education, Health, and Environmental Affairs

Maryland Oil Disaster Containment, Clean-Up and Contingency Fund and Oil Contaminated Site Environmental Cleanup Fund

---

This bill increases the fee assessed on oil transferred into the State until July 1, 2017, to 8.0 cents per barrel from 3.0 cents per barrel; beginning July 1, 2017, the fee is 5.0 cents per barrel. Until July 1, 2017, 7.75 cents of the per-barrel fee are credited to the Maryland Oil Disaster Containment, Clean-Up and Contingency Fund (Oil Fund) and 0.25 cents are credited to the Oil Contaminated Site Environmental Cleanup Fund (Reimbursement Fund). The bill allows owners of heating oil tanks to continue to apply for assistance from the Reimbursement Fund through June 30, 2017. The bill also alters the due date of the annual Oil Fund status report and requires the Secretary of the Environment to convene a workgroup to review and assess long-term funding needs of the State's oil pollution programs. The Maryland Department of the Environment (MDE) must report the workgroup's findings and recommendations to specified legislative committees by December 31, 2016.

The bill takes effect July 1, 2014.

Fiscal Summary

State Effect: Special fund revenues increase by $3.6 million in FY 2015 due to the 5.0-cent increase in oil transfer fees compared to current law; out-years reflect forecasted changes in oil consumption. The Governor's proposed FY 2015 budget assumes a continuation of the current 3.0-cent fee; this is $3.2 million less than the bill is estimated to generate. Special fund expenditures from the Reimbursement Fund increase by $180,700 in FY 2015, by $235,000 in FY 2016, by $229,100 in FY 2017, and by $55,900 in FY 2018 for reimbursements to owners of heating oil tanks. It is assumed that MDE can convene the workgroup and handle the bill's reporting requirement with existing budgeted resources in FY 2015.

(in dollars)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
SF Revenue	$3,614,700	$4,699,600	$4,582,600	$2,457,700	$1,742,900
SF Expenditure	$180,700	$235,000	$229,100	$55,900	$0
Net Effect	$3,434,000	$4,464,700	$4,353,500	$2,401,800	$1,742,900

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: The bill does not materially affect local operations or finances.

Small Business Effect: Meaningful.

Analysis

Current Law/Background:

The Oil Fund

The Oil Fund was established in 1986 to provide funding to MDE's oil pollution prevention programs, such as permitting, enforcement, and oil spill response. A fee of 0.75 cents was imposed on each barrel of oil transferred into the State. During the 1996 session, the General Assembly increased the fee to 1.0 cent per barrel, with an additional 0.5-cent fee that was set to expire on July 1, 2000. Chapter 604 of 2000 increased the nonexpiring portion of the fee from 1.0 cent to 2.0 cents per barrel. Chapter 604 also extended the expiring portion of the fee until July 1, 2005, increased it from 0.5 cents to 1.0 cent per barrel, and credited it to the Reimbursement Fund. Chapter 177 of 2005 increased the nonexpiring portion of the fee from 2.0 cents to 4.0 cents per barrel from July 1, 2005, through June 30, 2010, and Chapter 377 of 2010 increased the fee to 5.75 cents per barrel until July 1, 2013, after which time the fee was reduced to 3.0 cents per barrel.

Costs incurred by the State from the fund are required to be reimbursed by responsible parties; reimbursements are also deposited into the fund. When the fund balance exceeds $5 million, monthly oil transfer fees are suspended until the balance is $4 million or until there is evidence that the balance could be significantly reduced by recent discharges.

The Reimbursement Fund

The Reimbursement Fund was established in 1993 to reimburse underground storage tank owners for costs incurred during site cleanups. Chapter 604 of 2000 modified the uses of that fund; among other things, Chapter 604 provided that:

- eligible owners and operators may apply to the fund for reimbursement for costs incurred in performing site rehabilitation after specified dates;

- residential owners of heating oil tanks are subject to a deductible of $1,000; and
- the maximum amount to be reimbursed for heating oil tanks is $10,000 per occurrence.

Chapter 177 of 2005 increased the portion of the oil transfer fee that is deposited into the Reimbursement Fund from 1.0 cent to 1.75 cents per barrel and extended the authorization to collect the fee through fiscal 2010. Chapter 177 also modified the uses of the fund; among other things, the Act provided that heating oil tank owners are eligible for reimbursement from the fund through fiscal 2010. Chapter 377 of 2010 allowed such owners to continue to apply for reimbursements through June 30, 2013.

The 2013 Budget Reconciliation and Financing Act

The Budget and Reconciliation Financing Act (BRFA) of 2013 authorized the transfer of $3,500,000 from the Reimbursement Fund to the Oil Fund by June 1, 2013. The Governor was authorized to transfer the remaining balance in the Reimbursement Fund to the Oil Fund by December 31, 2013. The 2013 BRFA also required the Secretary of the Environment to convene a workgroup, including members of the petroleum marketing industry, to review and assess the long-term funding needs of the State's oil pollution program and report the findings and recommendations by December 31, 2013. Although the report has not yet been submitted, MDE advises that the bill implements the recommendations of the workgroup.

State Fiscal Effect: Based on a projection of about 96.4 million barrels of oil imported into the State in fiscal 2015, an oil transfer fee of 3.0 cents generates about $2.89 million. Under the bill, special fund revenues increase by an estimated $3.61 million in fiscal 2015 due to the increase in the fee from 3.0 cents per barrel under current law to 8.0 cents per barrel; this reflects a three month lag in the distribution to MDE of oil transfer fees. Of the $3.61 million increase in special fund fee revenues, $180,736 is distributed to the Reimbursement Fund, and the remainder is distributed to the Oil Fund.

The Governor's proposed fiscal 2015 budget assumes that the 3.0-cent fee is maintained, resulting in $3.3 million in revenues for the Oil Fund. The Governor's proposed fiscal 2015 budget also assumes that oil transfer fees are not distributed to the Reimbursement Fund, with no beginning balance or revenues assumed in the budget for fiscal 2015.

Future year revenue increases reflect annualization and forecasted changes in oil consumption. Under the bill, in fiscal 2018, the fee decreases from 8.0 cents per barrel to 5.0 cents per barrel. The reduced fee generates an estimated $2.46 million and $1.74 million in fiscal 2018 and 2019, respectively, based on projected imports of 89.4 million and 87.1 million barrels of oil and based on a three month lag in fiscal 2018 during which the 8.0-cent fee continues to be received. Out-year projections are based on a continuation of the average actual decline in the number of barrels of oil transferred between fiscal 2004 and 2013 of about 2.5% annually. To the extent that the actual amount of oil imported into the State differs from these estimates, oil transfer fee revenues also vary.

While most of this revenue is credited to the Oil Fund, the 0.25-cent fee distributed to the Reimbursement Fund provides estimated revenues of $234,982 in fiscal 2016, $229,132 in fiscal 2017, and $55,857 in fiscal 2018 for the Reimbursement Fund, which represents the final distribution of fee revenues prior to the bill's phase out of the distribution on July 1, 2017. Special fund expenditures from the Reimbursement Fund increase correspondingly due to the bill's authorization for owners of heating oil tanks to continue to apply for reimbursements through June 30, 2017.

MDE projects that the combined funding needs for its oil pollution programs are $8.3 million in fiscal 2015, $8.5 million in fiscal 2016, and $8.8 million in fiscal 2017. Thus, the fee increases authorized by the bill are not projected to provide sufficient funding to fully support the needs of the MDE oil pollution programs. However, in the absence of the bill, oil pollution program needs are projected to exceed revenues to the Oil Fund and Reimbursement Fund by more than $5 million annually and may result in a significant reduction in staffing and resources for the programs. There are currently 41 permanent and 1 contractual full-time employees in the Oil Control Program and 16 permanent full-time employees in the Emergency Response Division.

Small Business Effect: Historically, the majority of reimbursements from the Reimbursement Fund have supported commercial cleanups, and presumably, some commercial applicants are small businesses. Additionally, owners of heating oil tanks benefit from the continued authorization to seek reimbursement through June 30, 2017.

In fiscal 2013, 290 companies held oil transfer licenses in the State. To the extent any of these licensees are small businesses, they incur an increase in costs due to the bill's fee increase.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Department of the Environment, Department of Legislative Services

Fiscal Note History: First Reader - February 16, 2014
ncs/lgc

Analysis by: Evan M. Isaacson

Direct Inquiries to:
(410) 946-5510
(301) 970-5510