COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3981-01
Bill No.: SB 1016
Subject: Motor Fuels: Motor Vehicles
Type: Original
Date: February 13, 2002

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Petroleum Inspection	$0	$0	($299,043)
Total Estimated Net Effect on All State Funds	**$0**	**$0**	**($299,043)**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Federal Funds	$0	$0	($12,000,000-Unknown)
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**($12,000,000-Unknown)**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Local Government	**$0**	**$0**	**($3,000,000-Unknown)**

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 5 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **State Courts Administrator** stated that this proposal would not fiscally affect their agency.

Officials from the **Department of Agriculture** (AGR) assume the AGR-Fuel Quality Program (FQP) would administer the bill's requirements, which translate into a 2.7% oxygen content which can be met with a 7.7 % ethanol blend. The law becomes effective on August 28, 2002, but service stations will have until August 28, 2004, to meet the 50% requirement. Since most service stations will have to prepare storage tanks for ethanol blends prior to August 28, 2004, the FQP will need additional staff during the transition period. Therefore, officials assume FTE and expenses Fro FY 2005 for a full 12 months.

AGR officials would request a Chemist III to handle the extra testing of all gasoline samples as well as instructing the service station operators, suppliers, and terminals as to the requirements, a Fuel Device Safety Inspector I would assist in enforcement of labeling and documentation requirements and would obtain fuel samples for on-site testing and for laboratory tests, an Auditor II would audit records at terminals and refineries. The Chemist would use an existing chromatograph and the Inspector would require a pickup truck, camper shell, sample collection equipment, and oxygenate analyzer. The three existing Inspectors would also each use an oxygenate analyzer.

Oversight assumes the AGR can use existing resources for transportation for the auditor and the bill would not require the purchase of a new vehicle.

Officials from the **Department of Transportation** (DHT) assume federal funding would be reduced due to the lower federal fuel tax rate on gasohol, which would reduce MoDOT's total contribution to the Highway Trust Fund. State revenue would not be affected because the state fuel taxes for gasoline and gasohol are both 17 cents per gallon. This proposed legislation would result in a loss beginning in October, 2004. Therefore, the minimum loss to the Road Fund for the scope of this fiscal note is $12,000,000 in FY 2005. Minimum losses beyond the scope of this fiscal note are: $12,000,000 in FY 2006; $12,000,000 in FY 2007; $12,000,000 in FY 2008; and $12,000,000 in FY 2009. The maximum loss is unknown.

The minimum loss assumed by DHT officials is based on:
1. Calendar Year 99 national total revenue credited to the Highway Account of the Trust Fund (federal apportionment).
2. The current guarantee formula used by the Federal Highway Administration (FHWA) for

apportionment under the current highway act (TEA-21).
3. Current Missouri revenue credited to the Highway Account less the decrease in contributions

from increased gasohol usage in the state.

The maximum amount is unknown because of the uncertainty of the future national policy regarding mandatory use of gasohol which effects Trust Fund receipts and the next highway act scheduled to take effect in 2004.

The associated minimum loss to cities and counties for the scope of this fiscal note is $3,000,000 in FY 2005. Associated minimum losses to cities and counties beyond the scope are: $3,000,000 for FY 2006; $3,000,000 for FY 2007; $3,000,000 for FY 2008; and $3,000,000 in FY 2009.

Officials from the **Department of Natural Resources** assumed, in response to an identical proposal, that because this bill places responsibility for implementing the statewide gasoline oxygen requirement on the Department of Agriculture, this bill will have no fiscal impact upon the Department of Natural Resources.

However, if this bill becomes law, the Department's State Implementation Plan for the reduction of VOC emissions in ozone non-attainment areas (St. Louis) and in ozone maintenance areas (Kansas City) would likely be impacted. If the new fuel requirements have fewer emissions reductions, those reductions would have to be made up with new strategies. This would require the state to seek additional air pollutant reductions from businesses already regulated or the state may be required to regulate smaller businesses in the non-attainment area.

The Department is already responsible for these activities and does not estimate a significant fiscal impact, therefore the Department is not requesting additional resources.

Furthermore, because the federal Clean Air Act mandates only 2.0 weight percent oxygen for the federal RFG program, the department would have to request a Section 211 (c)(4)(C) fuel waiver [per the CAAA] to make this 2.7% statewide oxygen requirement federally enforceable in the St. Louis RFG area. The federal conventional gasoline regulations allow the use of oxygenates, but there is no rule that specifies oxygenates must be used. Therefore, the department would have to request another fuel waiver under Section 211 (c)(4)(C) to make the statewide oxygen requirement federally enforceable for the rest of the state. There are also federal preemption issues, associated with gasoline requirements, that must be considered. The department is already responsible for these activities and does not estimate a significant fiscal impact, therefore the department is not requesting additional resources.

FISCAL IMPACT - State Government	FY 2003 (10 Mo.)	FY 2004	FY 2005
PETROLEUM INSPECTION FUND			
Cost - Department of Agriculture			
Personal Service (3 FTE)	$0	$0	($101,637)
Fringe Benefits	$0	$0	($34,658)
Expense and Equipment	$0	$0	($162,748)
Total Cost to Department of Agriculture	$0	$0	($299,043)
ESTIMATED NET EFFECT ON PETROLEUM INSPECTION FUND	**$0**	**$0**	**($299,043)**
FEDERAL FUNDS			
Loss - Reduced Federal Match	$0	$0	($12,000,000 to Unknown)
ESTIMATED NET EFFECT ON FEDERAL FUNDS	**$0**	**$0**	**($12,000,000 to Unknown)**

FISCAL IMPACT - Local Government	FY 2003 (10 Mo.)	FY 2004	FY 2005
POLITICAL SUBDIVISIONS			
Loss - Cities and Counties	**$0**	**$0**	**($3,000,000)- Unknown)**

FISCAL IMPACT - Small Business

Small businesses which are service stations incur additional labeling costs plus the cost for labor to install the labels. The proposal would result in higher fuel cost for customers that must purchase non-oxygenated gasoline for their specific equipment (premium is the only grade available). Furthermore, additional paperwork will be required to specify the amount of oxygenate with delivery tickets. Lastly, gasoline prices are expected to be higher.

DESCRIPTION

This proposal would add gasoline-oxygenate blends to the list of motor fuels regulated by the Department of Agriculture. It would require that, by August 28, 2004, 50% of the gasoline sold in the state contain at least 2.7% oxygen by weight. The sales requirement increases to 75% by

DESCRIPTION (continued)

August 28, 2006, and to 95% by August 28, 2008. Areas subject to the federal reformulated gasoline program would be exempt, but only during times of the year when fuel containing 2.7% oxygen does not meet federal requirements. Fuel sold for use in aircraft, water craft, and racing cars would be exempt. Retail gasoline stations could dispense non-oxygenated premium fuel from one storage tank for use in historic vehicles, motorcycles, snowmobiles, off-road vehicles, boats, and small engines.

This legislation is not federally mandated, would not require additional capital improvements or rental space, but would duplicate an existing program. AGR noted that their Division of Weights and Measures, Fuel Quality Program currently administers fuel quality testing. This proposal adds additional duties to the program. The proposal could affect Total State Revenue.

SOURCES OF INFORMATION

Office of State Courts Administrator
Department of Agriculture
Department of Transportation

Not Responding - Department of Natural Resources

Mickey Wilson

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Acting Director
February 13, 2002