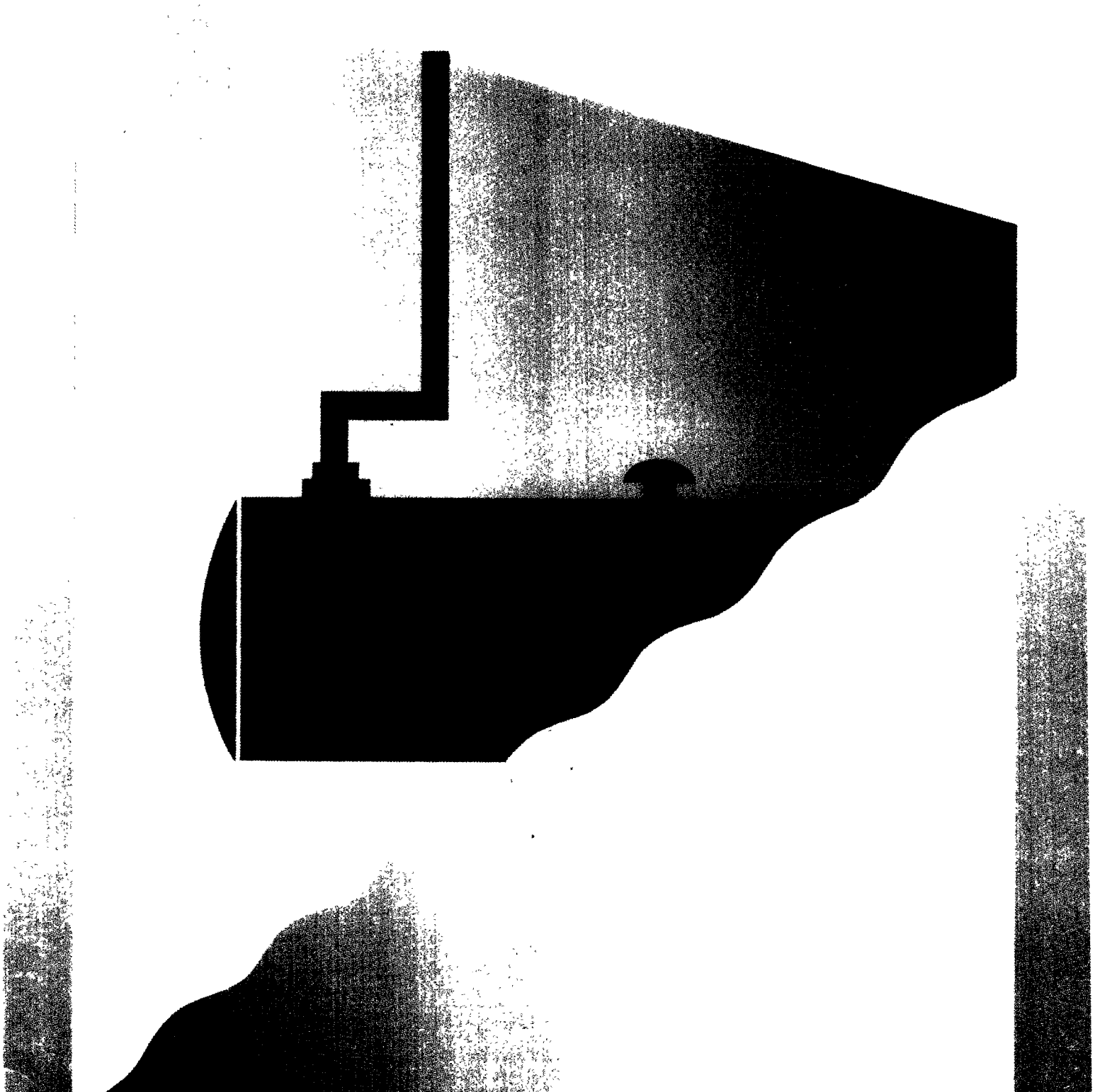
United States
Environmental Protection
Agency

Office of
Underground Storage Tanks
Washington, D.C. 20460

EPA/530/UST-88/002
August 1988

EPA

Funding Options for States and Local Governments



UNDERGROUND STORAGE TANK PROGRAMS:

FUNDING OPTIONS FOR STATE AND LOCAL GOVERNMENTS

U.S. Environmental Protection Agency
Office of Underground Storage Tanks

August 1988

ACKNOWLEDGEMENTS

The Environmental Protection Agency's Office of Underground Storage Tanks (OUST) wishes to acknowledge and express its appreciation for the efforts of Ann Carey of ICF Incorporated and the EPA Regional UST staff and State program representatives who gathered the initial data for this handbook in a very short time. They reviewed, revised, and updated it throughout its preparation.

OUST also wishes to thank the members of review panel who gave generously of their time to provide their comments and support to make this a better handbook. Review panel members included; Victoria Gallagher, San Diego UST Program; Chuck Head, UST Coordinator, Tennessee Division of Groundwater Protection; John Holck, UST Coordinator, Minnesota Pollution-Control Agency; Helen Ladd, Ph.D., Professor of Public Policy Studies, Duke University; Jerry Miller, Director, National Association of State Budget Officers; John Petersen, Government Finance Officers Association; and Frank Sudol, Newark, NJ, Department of Engineering. We give special recognition to Dr. Ladd for providing the ideas and framework for a major revision of Chapter III.

Finally, special thanks to Kate Becker of ICF Incorporated, who performed the difficult task of turning early, technical drafts of this report into a more "user-friendly" handbook.

Sandy Strauss
EPA Project Manager
June 1988

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CHAPTER I

UNDERGROUND STORAGE TANKS: FUNDING STATE AND LOCAL PROGRAMS

Underground storage tanks (USTs) are a fact of American life. They constitute a hazard to public health if they are not installed and maintained safely, and they require immediate and often costly cleanups when they leak. There are consequences for those who decide to ignore the problem of leaking USTs. In the event of a major cleanup, your government may face the ultimate responsibility for paying the costs for cleanups that are not covered by owners or operators or the Federal Leaking Underground Storage Tank (LUST) Trust Fund. An effective prevention program that detects problems early is the best insurance against environmental damage and health risks caused by leaks. You, as a State or local UST program official, can help decide whether your program's current funding is sufficient or whether more or different funding sources are necessary.

The purpose of this handbook is to present you with funding alternatives that can provide new or expanded sources of funds for your program. It is often helpful to learn how other program officials have met similar challenges. Some of you, however, are officials in one of the many State and local governments that has an effective UST program up and running. We suggest that you be selective in your reading of this handbook. We did not design it to be read from cover to cover; we did try to provide a wide range of options for those of you who are new to the question of program funding.

We at the U.S. Environmental Protection Agency (EPA) have assembled information on how State and local UST programs are being funded. In 1987, EPA surveyed the UST programs in all 50 States. Each State reported on the mechanisms it uses to fund its prevention and cleanup activities; some States have continued to submit funding data throughout the preparation of this handbook. The data from the survey appear as examples of specific applications of dedicated funding mechanisms throughout the handbook; the raw data are in the appendices; a summary appears in Chapter VI. Please note that these data represent only what is happening now. In addition, we wish to make the following statements about the data.

- All programs are still in their development phase.
- Funding data contained herein are for the programs at their current levels.
- These levels differ from State to State.
- Funding needs are changing and will continue to change as programs evolve.
- The mechanisms used and the levels of funding are constantly changing.

How the Federal Law Affects You

In 1984, Congress passed Subtitle I of the Hazardous and Solid Waste Amendments to the Resource Conservation and Recovery Act. Subtitle I requires the EPA to address the problem of leaking underground storage tank systems. Because of the nature of the problem, Congress intended the UST program to be administered primarily at the State and local levels. EPA is not in a position to underwrite UST programs.

Some resources are available through EPA program grants for prevention programs and through the LUST Trust Fund for cleanups, but neither will fund an entire program. EPA program grants provide "seed" money for the development and implementation of State-run UST prevention programs. Currently, fundable tasks include such activities as developing legislative

authorities, developing enforcement programs, or developing the funding mechanisms discussed in this handbook. Other fundable tasks include State program approval application activities, outreach efforts, and compliance monitoring and enforcement activities. Current (fiscal year 1989) funding levels for State grants are $162,500 per State (as well as Puerto Rico and the District of Columbia) and $137,500 for the remaining territories. A 25 percent match is required.

The LUST Trust Fund was created by the Superfund Amendments and Reauthorization Act (SARA) and is available to States for cleanups of leaking USTs. The Trust Fund can be used only if the costs of a cleanup exceed the minimum insurance coverage that an owner or operator is required to maintain, or if a solvent owner cannot be located or refuses to pay for corrective action. In addition, the Trust Fund can be used only for enforcement- or cleanup-related activities associated with petroleum releases; it will not be available for most regulatory activities (such as routine inspections, permits, outreach, and program development). States and territories will be required to provide a 10 percent match once the new UST regulations take effect.

Neither the Trust Fund nor the program grants will provide sufficient resources necessary to fund an effective State or local UST program. State and local governments need to find additional funding sources to pay for their UST programs.

How to Pay for Your UST Program

State and local program revenues typically come from one of two sources: general revenues and dedicated fees or taxes. General revenues are drawn from a State or local general fund and are appropriated on an annual or biennial basis to various programs. Each year (or every two years), UST program needs are balanced against competing demands for limited resources. Over time, the amount of annual appropriations may become constant. However, there is no binding commitment from year to year, and appropriations for individual programs may change as a result of shifting public priorities or changes in revenues.

General revenues are currently the most common source of funding for State UST programs; 38 States currently use general revenues either alone or in conjunction with dedicated funding sources. General revenues are not discussed in detail in this handbook because they are already being used by a number of programs, and they are generally well understood by program managers.

The other major source of funding is dedicated program fees or taxes. These are fees or taxes that are collected from a designated source and are dedicated to a specific program, hence their name. Fees are typically levied for a particular service, whereas taxes are often more generally applied.

There is a wide variety of funding mechanisms that you can potentially use to support State and local UST programs. In this handbook we focus on the following mechanisms:

- Registration and permit fees,
- Petroleum product assessments,
- Corporate receipts or income taxes,
- Water utility assessments, and
- Special property assessments.

This list is not intended to be all-inclusive; rather, it illustrates the range of mechanisms available for your consideration. Dedicated funding mechanisms can be used to supplement or replace general revenue funding. They can be used to pay for specific activities (such as licensing) or for general program costs. The applicability of different mechanisms to various program needs depends on the amount and flow of revenues from such mechanisms, as discussed later.

Bonds are sometimes considered a third source of revenue. While they generate bond proceeds, they are only a mechanism for spreading the program funding burden out over time. Another source of funds (general revenues or dedicated fees or taxes) is still needed to repay the bonds. The applicability of bonds to UST program needs is discussed in this handbook.

In choosing a funding mechanism, you must consider what segment of the population will provide the funds through that mechanism. Some dedicated funding mechanisms, such as registration and permit fees, tend to fall to those parties who contribute directly to the problem (for example, tank owners or product manufacturers and distributors). Others, such as petroleum product or water assessments, fall to parties who are indirectly related to the problems (gasoline buyers) or are beneficiaries of the program (water users).

How This Handbook Can Help You

You may need a combination of funding sources to cover the costs and ensure the stability of your UST program. The question is which ones and in what combination? Because every State and local government is unique, we can't answer that question for you. We can, however, give you information about the funding mechanisms and examples of what other States have done and how they rate their success. And we can make some suggestions. For example, the funds appropriated to your program from general revenues may vary from year to year because of the process by which they are allocated. So we suggest that if you use general revenues you also have in place other funding mechanisms, preferably dedicated mechanisms, to guard against a major loss of revenues as a result of changes in funding priorities, the economy, and the like.

As you read this handbook, you will note that there is no one right way to fund a program. States are currently using a number of strategies, each achieving some measure of success.

How This Handbook Is Organized

The organization of this handbook is quite straightforward.

- Chapter II has information on working with the legislative and executive branches.
- Chapter III provides factors that you should consider when choosing a funding mechanism.
- Chapter IV looks at the funding mechanisms that are best suited for States. It contains descriptions of each mechanism, pros and cons as they relate to the choice factors, and examples of their application.
- Chapter V covers the funding mechanisms that are best suited for localities and treats them as in Chapter IV.
- Chapter VI is an overview of how some mechanisms are being used, including combinations of funding mechanisms and the relationship of the mechanism to the activities performed.
- Chapter VII contains some ideas about where to go for additional information.
- The appendices contain charts and raw data and are referenced throughout the chapters. These data come from EPA's 1987 Interim Report on State Funding for Underground Storage Tank Programs and additional information submitted from States since that report.

We encourage you to contact individual State programs to find out how well a specific mechanism works in a specific State. A list of State implementing agencies is provided in Appendix F. Staff members from the Office of Underground Storage Tanks (OUST) (202-475-9722) can refer you to people who can answer any other questions you may have as a result of reading this handbook.

WORKING WITH THE LEGISLATIVE AND EXECUTIVE BRANCHES

Establishing funding for an UST program requires that you work effectively with a variety of decision makers. It means not only determining what funds you need and selecting appropriate mechanisms, but it also means interacting with your own agency officials, the executive branch, the State or local budget office, and the State legislature or local commissioners or boards. These decision makers are often faced with critical political choices and must decide among numerous conflicting demands. After your office determines its funding needs and proposes a funding mechanism, officials in your own agency must be committed to your choice before it can be presented to the legislature. The legislature will decide whether your funding proposal fits into the overall fiscal priorities of your State, while the executive branch (often with the advice of the budget office), will determine whether the mechanism is worthy of being signed into law. All these decision makers can influence your ability to establish dedicated funding mechanisms to run an UST program.

There is considerable work to do before you present your decision makers with the information they need to make a decision concerning the funding of your UST program. Much of the information that you will need to consider for your work is contained in the chapters that follow.

While each jurisdiction has unique characteristics and political considerations to which you must be sensitive, there are some general pointers for working effectively with the administration and the legislature to develop UST funding mechanisms. Please bear with us when we cover aspects of this material that you already know. We can't assume that all readers have the same level of knowledge and experience. Our goal here is to pass along some of the ideas and approaches that have worked successfully for some States.

Starting a New Program: Initial Funding Efforts

Certain programs have been receiving public funding for many years, and government managers and legislators are accustomed to continuing their funding. Typically, however, the UST program presents a new demand on funds, and legislators and agency officials may be reluctant to dedicate extensive funding to a new program. You should make a realistic assessment of your program needs and be ready to convey them to your decision makers. If you start small and propose a less demanding funding mechanism, it may be easier to get UST funding on the legislative agenda or in your agency budget. You can then demonstrate the need for and value of increasing the funding in the future. Traditionally, programs need to start small as they are unlikely to be able to spend large appropriations in their early phases. And starting small does not mean that EPA will intervene more actively in the State. EPA is committed to having State-run UST programs and realizes that some will start small.

An example of a program that started small comes from Utah. Program officials there worked with the legislature to pass a tank fee system that was modest in its initial fee structure but allowed for growth. The tank fee is to be used to cover the costs of developing the UST program. The initial assessment was $25 per year per tank, and the legislative committee can raise the fee up to $100 per tank if it becomes evident that the fee is not covering program costs. Thus, the legislation, while starting small, allows for growth. In fact, the Utah legislature is currently considering raising the fee to $60 per tank per year.

Officials in Delaware used a different strategy to get on the legislative agenda for developing UST funding. The UST statute in Delaware cre-

ated the Delaware Underground Petroleum Response Fund. This fund can be used for conducting and overseeing cleanups; for helping owners meet Federal financial requirements over $100,000 per occurrence for corrective action, and $300,000 for third-party damage; and for creating an amnesty program that reimburses owners and operators for all costs incurred in cleanups during the first 18 months after the law was established. While the fund has been established, it does not yet have a funding mechanism dedicated to provide revenues. During the next session of the Delaware legislature, lawmakers will have to decide who will provide the resources for the fund. Thus, the legal establishment of the fund demands that the legislature create a mechanism to support it. UST program officials are considering proposing a gasoline tax, issuing a bond, or using general revenues.

Justifying Your Program Costs

Defining your program's resource needs is a crucial step in developing a funding mechanism. Legislators, administrators, budget officers, and other officials will be particularly interested in your estimates of program costs. In developing your estimates, you might rely on information from other environmental programs, from other State and local UST programs, and from similar nonenvironmental programs. New Jersey developed a 3-year cost projection based on the number of tanks and a list of costing factors, including the costs of full-time employees and other administrative costs, and then used it to justify appropriation requests to the legislature. Be careful to not simply transfer work projections and costs from other programs or to assume that work will be done as it has been done in the past. They may not be appropriate for a program with the number of sources of problems and known products present in the UST field.

Knowing the Political Climate

Clearly, to propose and develop funding mechanisms successfully, you need to understand the disposition toward different types of mechanisms in your State and its legislature. Some State environmental programs have a history of being fee-for-service supported; proposing other types of mechanisms may be going against the grain. In other States, where petroleum taxes may be historically or legally used only for transportation-related programs, proposing petroleum taxes may be futile. Knowing what will and what will not be acceptable can allow program officials to focus on mechanisms that can realistically be established.

Involving the Interest Groups

You should consider listening to the concerns of relevant interest groups in your State and enlist their participation. Soliciting industry or other representatives' input can foster their support for the program. Working with an advisory committee is an extremely effective way to develop a program that has a good chance for being successful. In addition, groups affected by a proposed funding mechanism may voice stronger opposition later if they are not involved in developing the mechanism early on.

Iowa has set up a legislative council responsible for developing UST legislation. The council is composed of two State senators, two representatives, a representative of the petroleum storage tank owners and operators, and a representative from the petroleum industry. Other States have similar councils, many of which are more broadly based than Iowa's. Including industry officials in the legislative process may help eliminate divisiveness and lead to legislation that is acceptable to all parties.

Giving a Little to Get a Little

The legislative and budget processes often involve compromising to achieve success. Decision makers in both the executive and legislative branches must compromise with one another, and people proposing a financing mechanism must compromise with those affected by it. In Pennsylvania, a recent bill was passed and signed into law dedicating a percentage of the State's broad-based capital stock-franchise tax (a tax on business in-

come and net worth) to be used for hazardous waste cleanup. To pass such a tax, the legislature had to reach a compromise between those who wanted a reduction in the capital stock tax and those who wanted to use a portion of the tax to fund hazardous waste cleanups. The solution was to partially reduce the overall tax and to dedicate a portion to the Hazardous Sites Cleanup Fund.

Similarly, Delaware established a tank fee system to fund the administrative portion of its UST program. The bill was passed without visible opposition of tank owners because it included an amnesty program they wanted.

GENERAL CONSIDERATIONS FOR SELECTING A FUNDING MECHANISM

In this chapter, we describe a general approach to selecting an appropriate funding mechanism for your UST program. This approach follows three basic steps:

- Determining your program's funding need.
- Selecting among different revenue sources (general revenues, dedicated mechanisms, or bond proceeds).
- Evaluating how alternative funding mechanisms perform with respect to revenues, distribution of the funding burden, and incentives.

Each of these steps is discussed in greater detail below, and a matrix which provides brief, side-by-side comparisons appears in Appendix A.

What Are the Funding Needs of Your Program?

The three main considerations that will affect the funding needs of your program are discussed below.

What Is Your Program's Scope And Design?

Program scope and design are probably the most critical determinants of funding needs. The scope and design of a program are determined by the program activities, which, in turn, are determined by factors such as:

- Political and legislative concerns.
- Environmental circumstances and concerns.
- Program goals.
- Tank characteristics (number, age, type, location, and ownership).
- Standard operating procedures.

An example of a factor that has political, environmental, and legislative overtones is deciding on whether the emphasis of the program will be on prevention or cleanup activities or both.

For the purpose of this handbook, we define "prevention program" or "prevention activities" as those activities designed to prevent and detect releases of regulated substances. A prevention program may include the following:

- Developing regulatory requirements such as new and existing tank system standards, release detection requirements, testing, notification and other reporting requirements, and closure standards.
- Implementing a notification program that provides a data base of all regulated tanks in a given jurisdiction.
- Establishing a compliance/enforcement program that both monitors for compliance with regulatory requirements and ensures that systems not in compliance are corrected.
- Investigating suspected releases for confirmation purposes.

"Cleanup program" or "cleanup activities" are defined as the responses made once the existence of a release has been confirmed. Therefore, a cleanup program includes all activities to abate and remedy releases of regulated substances.

The distinction between "prevention program" and "cleanup program" is made explicit here because some States are organized along these lines. In fact, in certain States, responsibility for prevention and cleanup activities may lie in different agencies or departments. You will find that throughout this handbook we note that some of the funding mechanisms described are used for prevention programs, while others are used for cleanup programs. Appendices B through E include data on how each mechanism is used. The data for each State or local government are based on that particular government's definition of the prevention and cleanup program, which may differ from the definitions given above. The definitions above merely provide a common frame of reference.

EPA recommends that both prevention and cleanup activities be funded. In fact, States must be prepared, either through direct funds or in-kind contributions (such as staff or equipment), to provide the 25-percent match for UST program grants and the 10-percent match for the LUST Trust Fund beginning in Federal fiscal year 1989.

In the event of a major cleanup that results from lack of attention to a problem, your jurisdiction may have to pay cleanup costs that are not covered by owners or operators of tanks. An effective prevention program that detects problems early is the best insurance against both the environmental damage and the health risks caused by leaks.

Is It A New Or An Ongoing Program?

Just as program activities change during the life of a program, so do the funding needs of a program. For example, the funding needed for compliance monitoring, enforcement, and corrective action may be high at first but should decline and level off in the latter stages of a program as problems are corrected.

Can Some Of The Effort Be Delegated?

It may be worthwhile to consider incorporating UST program functions into ongoing activities in other programs or agencies. For example, UST inspection requirements might be added to existing inspection programs at less cost than creating an entirely new program. The ability to delegate program activities and responsibilities is heavily influenced by standard operating procedures, efficiency concerns, and personnel experience.

Responsibility can also be delegated to tank owners and operators themselves. Shifting the responsibility for certain activities to the regulated community is often referred to as "privatization." Privatization can substantially reduce the costs to the regulatory agency of many UST prevention activities. An example of privatization is requiring UST owners and operators to conduct (or hire someone to conduct) their own facility inspections. The owner or operator would then be required to report the results of the inspection to the regulatory agency. The regulatory agency can then verify the results of selected self-reported inspections and enforce against those who falsified their results. This privatizing of work eliminates the need for your agency to conduct facility inspections at all facilities.

What Are the General Approaches to Raising Program Funds?

Although there is some movement toward the use of two or more funding sources, individual State and local programs (including UST programs) typically have been financed by either annual appropriations from general revenues or dedicated program fees and/or taxes. There are benefits and drawbacks to both.

The appropriations process places the UST program on equal footing with other public programs supported with general revenues. Each year the needs of this program are balanced against competing demands for limited resources. Over time the amount of annual appropriations may become constant as the program matures and funding needs are well-defined. At the same time, a large one-time appropriation to cover a catastrophic event can also benefit the program. In general, this process ensures program responsiveness to changing public priorities.

Dedicated fees or taxes remove the UST program from the budgetary process, providing somewhat greater control to program management. Legislative control over program design and implementation may be diminished, and control over program priorities relinquished to the executive branch. At the same time, program activities may be limited by the capacity of the funding mechanism, and the program may forego periodic distributions of additional general revenues.

Bonds are sometimes considered a third source of program funds. While bonds generate bond proceeds, they differ from the other two revenue sources in that they are simply a mechanism for spreading the funding burden out over time. Bonds do not remove the need for either general or dedicated revenue sources. Such sources are still needed to pay the annual debt service on the bonds, where "debt service" includes interest expense and repayment of principal. Bonds may be appropriate where initial program funding needs are higher than amounts that could reasonably be raised with dedicated fees or taxes or appropriated from general revenues (for example, for extensive removal, replacement, or cleanup activities). These other sources would then be tapped to repay the bonds, spreading the funding burden out over time.

How Do Different Funding Mechanisms Perform?

In selecting a funding mechanism for your UST program, it is important to understand and evaluate how that mechanism would perform in your particular situation. In the sections below, we describe how to evaluate different funding mechanisms with respect to three critical concerns:

- What is the revenue potential of a mechanism?
- What is the distribution of the funding burden?
- What are the incentives (either desirable or undesirable) created by a mechanism?

These issues are explored primarily as they relate to dedicated funding sources. While the same questions could be applied to general revenues, they are not concerns that are dealt with at the program level. For UST program managers, the primary considerations when evaluating general revenues are the amount of funds likely to be appropriated annually to the program and the continuity of those appropriations from year to year.

What Is The Revenue Potential Of A Mechanism?

A critical factor in evaluating any funding mechanism is its capacity to provide sufficient and predictable revenues. Revenue potential is how much money can be raised with a particular mechanism (annual and total projected revenues), and how stable those revenues are over time. Funding needs vary at different stages of a program; if a mechanism cannot provide sufficient cash flow when needed, it may hamper or interrupt program activities.

Projecting Revenues

To determine how much revenue a particular mechanism can generate, you must consider both the tax base and the tax (or fee) rate. For the mechanisms described in this handbook, the tax base can take many forms (such as tanks, facilities, petroleum and petroleum products, water, property, gross receipts, or income). Similarly, the tax rate can be expressed in several ways (including dollars per unit or percent of value).

When estimating revenues from a new funding mechanism, remember that the size of the tax base could change in response to the fee or tax. If tank owners respond to a tank fee by closing tanks, actual revenues would be less than projected revenues. The experience of other programs with similar mechanisms may help in estimating changes in the tax base in response to a new fee or tax.

Another consideration is how the fee will be collected. If the program is responsible for fee collection, it will incur costs that will offset the

proceeds from the fee. If the fee is collected through another department or agency and allocated to the program, there may be little or no cost to the program.

Pattern Of Revenues Over Time

Some funding mechanisms provide a one-time source of revenues; others provide a continuous source; and still others provide revenues that fluctuate over time. Ideally, the timing of revenues from one or more funding mechanisms will match the expenditure needs of the program. Mechanisms that provide a one-time or immediate source of cash (such as a surcharge on an existing tax) or that have a limited duration (such as one-time registration fees) may be more appropriate for short-term needs. In contrast, mechanisms that take time to establish (such as a product tax) but then provide a sustained source of revenues may be more appropriate for long-term funding needs.

It is also important to consider whether program costs will increase over time (for example, as a result of inflation). If they are expected to increase, it is desirable to design a revenue source that grows with inflation. This could be accomplished by indexing the fee schedule to inflation or by levying taxes on an ad valorem (percent of sales) rather than a per unit basis. Another approach is providing for an automatic rate increase in response to program needs. Such a provision is contained in the Florida Product Tax described in Chapter IV.

What Is The Distribution Of The Funding Burden?

A second major consideration in evaluating a funding mechanism is determining who should bear the burden of program costs. While it is not an absolute necessity, choosing a funding mechanism that links the parties who pay with the problems for which the funds are spent may strengthen a State or local government's efforts to establish dedicated program funding.

Deciding who should pay for program costs can be based on one or more of the following principles:

- Those firms or individuals who, as a group, created the need for the program should pay for its costs.
- Those individuals or groups who benefit from program activities should pay those costs.
- When the benefits of a program are widely dispersed and the first principle is not dominant, all taxpayers should pay the program costs.

There are no hard-and-fast rules on how the funding burden should be distributed. The relationship of each of these three principles to the funding approaches discussed in this handbook is explained below.

"Those Who Created The Need Should Pay"

This principle can be used to support fees or taxes on producers and suppliers of petroleum (and products) and on tank owners or operators whose activities create the need for an ongoing program to prevent the possibility of ground-water contamination from a release. This principle is most applicable to funding for the prevention aspects of an UST program.

"Those Who Benefit Should Pay"

The idea that people who benefit from public programs should pay for them is a standard principle of tax equity in other contexts. For example, this benefit principle is often used to justify the use of gasoline taxes to finance highways; those people who use the most gasoline are likely to be the ones that benefit the most from publicly provided highways. Beneficiaries of an UST program might include water users who benefit because prevention of UST releases helps ensure water quality. Or, in a geographic area of known leakages, cleanup of the area can benefit all property owners by increasing property values.

A somewhat different application of the benefit principle applies to benefits that accrue over time. This means that in any one year people

should pay for only that portion of the benefit that accrues in that year. This intergenerational benefit principle would justify bond financing in the case of a program to clean up sites that reflect past events, such as leaks from abandoned tanks. This cleanup program clearly benefits both current and future citizens; therefore, under the intergenerational benefit principle, cleanup costs should be spread out over current and future taxpayers.

"Widely Dispersed Program Benefits Should Be Paid For By All Taxpayers"

When benefits are widely dispersed (and burdens are not imposed on the creators of the problem), the cost may be spread among all taxpayers through the use of broad-based taxes or general revenues. Use of either of these funding sources weakens the link between the program and the funding of that program. Targeted fees would be inappropriate funding mechanisms because the burden would fall on only a segment of the beneficiaries. Regulating tank owners or providing oversight for cleanup activities might be considered a worthwhile public expenditure similar in spirit to education, which provides benefits to large segments of the population.

What Are The Incentives Created By A Mechanism?

A third major consideration in evaluating a funding option is the incentives created by the fee or tax. It is important to understand whether and how a mechanism can be used to create positive incentives, and how to avoid or minimize perverse incentives.

Those funding mechanisms that are closely tied to UST program activities (such as tank fees or petroleum product taxes) may influence tank management decisions, such as the selection of tanks or the handling of petroleum products. For example, a two-tiered tank fee schedule based on compliance with regulatory requirements could encourage the use of a preferred technology. Petroleum product taxes, if passed through to the customer, may lead to reduced consumption of those products.

The ability to create positive incentives with many of the funding mechanisms identified in this handbook is limited by three factors. First, even at currently used or proposed rates, the tax or fee will generally not be large enough to induce firms to shift to the preferred technology if the differential cost of that technology greatly exceeds the fee. Second, once States set the standards for management practices, setting fees for varying levels of compliance will be difficult. Finally, the administrative costs associated with differential fee schedules, could require the inspection of every tank and could far exceed the marginal revenues generated by the mechanism.

While the potential for positive incentives is limited, any revenue source can lead to undesired behavioral responses. For example, a tank fee might encourage some firms to avoid registering their tanks; an additional tax on gasoline in one State may induce consumers to buy some of their gasoline in other States. In all cases, the higher the tax rate, the greater the incentive for undesirable behavior. Although undesirable effects cannot be avoided completely, they can be minimized by keeping tax rates relatively low.

This discussion suggests that the primary justification for choosing most funding mechanisms should be based on their ability to fund a program. However, to the extent that those mechanisms also create appropriate economic incentives, that fact may be used to support the selection of a mechanism. Program managers should also be aware of factors other than fees or taxes that create incentives for better tank management, such as financial assurance requirements or potential cleanup actions. In most cases, these regulatory expenses are far greater than any currently imposed fee or tax and may operate as partial incentives to tank owners and operators.

FUNDING MECHANISMS FOR STATE PROGRAMS

Some funding mechanisms are better suited for either State or local application; some are suitable for both. This chapter presents information on mechanisms that are suitable for State UST programs. Each mechanism is discussed in the same manner. First we describe the mechanism, then we relate its performance to the factors given in Chapter III, and finally we give examples of current use, whenever possible. The examples appear in inset boxes and cover **why** a mechanism was chosen, **how** it was implemented, **what** was learned, and general **comments** and **recommendations** that the program officials wished to share with us.

As noted earlier, EPA's 1987 survey of State UST funding is the main source of the funding data cited in this handbook. Raw data appear in Appendices B through E; a summary of all State funding mechanisms appears in Chapter VI. (We want to remind the reader that the data in Appendices B through E represent only what was being done by the States at the time this handbook was written. Many States are now in the process of developing programs. As a consequence, the figures we cite here may already be changed.)

The dedicated mechanisms that States are currently using to fund their UST programs include:

- Registration and permit fees.
- Petroleum product assessments.
- Bonds.
- Corporate receipts or income taxes.
- Other mechanisms in use.

As discussed in Chapter III, deciding who will pay the tax and understanding how the tax burden will affect the taxed party is critical to the success of your program. The funding mechanisms are discussed in light of who will bear the tax burden. We hope that this approach will help you, the program official, in your decision-making process.

Registration and Permit Fees

Registration and permit fees can be considered as costs for the privilege of conducting certain types of activities (such as operating or installing a tank system in order to run a gasoline station) and as payment for the services provided by a government agency. These fees are often viewed as a way to provide a measure of control over the business operations and procedures that affect the welfare of a business community. The possibility of a fine or revocation of a license can help persuade businesses to comply with State or local requirements. Registration and permit fees may be defined as follows:

- Registration fees are fees paid to cover notification and recording. They require nothing more of the regulated party.
- Permit fees are fees paid to obtain a permit. They require the regulated party to meet certain operating or performance standards.

As shown in Appendix B: Registration and Permit Fees By State, 17 States currently use registration and/or permit fees to fund their UST programs. They are: California, Delaware, Florida, Illinois, Iowa, Kansas, Louisiana, Maine, Nebraska, New Jersey, New Mexico, New York, Ohio, Oregon, Texas, Utah, and Vermont.

Most of the States in this group use tank or facility fees. A few States use other varieties of registration and permit fees. One variation is a site activity fee. Another is certification or license fees. Brief descriptions of each of these types of fees appears below.

Aside from general revenues, registration and permit fees are the most common method of funding State UST programs. Because these fees place the funding burden directly on responsible parties (such as owners and operators), they establish a clear link between the fee and the program. The process of collecting fees itself supports program activities by helping to verify and improve tank data in the program.

The revenue-generating potential of registration and permit fees is limited by the number of tanks, facilities, personnel, activities, and so forth that are taxed and the rate of the fee. In addition, revenues may be affected by changes in the affected population.

Tank And Facility Fees

Tank and facility fees are paid by tank and facility owners or operators. Often they consist of a one-time registration fee and a yearly (or periodic) renewal fee. Some States impose a multi-year fee; some States have counties set their own fees. Tank and facility fees vary according to:

- Size of tank.
- Kind of product stored in the tank (chemicals or petroleum).
- Size of the business (in terms of square footage of buildings, number of employees, or other characteristics).
- Number of tanks.
- Amount charged (currently ranging from $3 to $100 per tank; generally in line with other State fees).

Some States exempt certain tanks or facilities (for example, State and local government tanks, heating oil tanks, farm tanks) from any fees. Examples of how Maine and Florida are using this funding mechanism are discussed in inset boxes.

Revenues from periodic tank or facility fees tend to fluctuate in the first few periods as more owners and operators are identified and as some drop out by closing their tanks in response to the new regulatory requirements. Some States have found that owners tend to close tanks that either are so far out of compliance that the cost of bringing them into compliance is prohibitive or are of marginal usefulness to them. Although this is a desirable result from an environmental point of view, it causes fee revenues to level out as the tank population stabilizes. One-time registration fees provide an initial infusion of funds, but the revenues are reduced considerably once the majority of tanks have been registered.

At current and proposed fee rates, the economic impact on the majority of tank and facility owners and operators is likely to be small. For most, the fees will be considerably less than the cost of local license or business fees or other regulatory requirements (for example, leak detection or financial responsibility). For owners or operators of tanks of marginal utility or profitability, however, the fees affect the decision to maintain or close a tank, or the fees could discourage notification and registration altogether.

Site Activity Fees

Site activity fees are fees charged by an UST regulatory agency for any activity that requires the agency to visit the facility. For example, agencies can charge for inspections or for investigations of a reported release. These fees are usually calculated by hourly rates and are often adjusted depending on when the activity takes place (for example, a higher fee is charged during non-business hours). Illinois currently uses a site activity fee to provide a portion of the funds for its UST program. Details of the Illinois fee appear in Appendix B.

Tank Tester And Installer License Fees

Tank tester and installer license fees are fees charged to certify or license tank tightness testers or installers. Tank testers and installers are often licensed by State or local regulatory agencies to ensure the quality of their services. These fees can be imposed before a tank tester or installer takes a licensing exam or before issuing a license. Annual renewal fees can also be imposed. These types of fees are both a method of raising revenue and a system of keeping track of who is performing tank services.

Unlike the mechanisms described previously, license fees should not be considered a primary source of UST program funding. The revenue potential of these fees is limited by the number of licenses issued and the amount of fee that can be reasonably imposed. These fees can, however, be used to offset the administrative costs of issuing licenses, which is consistent with the fee-for-service concept. Maine's Tank Installer Certification Fee provides an example of how these fees can be structured. Maine's fee is discussed in the inset box following the discussions of the Maine and Florida tank fees.

THE MAINE TANK REGISTRATION FEE

Maine uses an annual Tank Registration Fee to partially support its Ground Water Oil Cleanup Fund, which pays for UST program administration and cleanup. Fees are assessed on owners or operators of underground storage tanks according to the following schedule. The fee per tank is:

- Less than 6000 gallons $25
- 6000 gallons or more $50
- Late charge $75 or $150
- Late charge on consumptive-use tanks registered after May 1, 1986 $50

Fees are due on or before January 1. The $75 or $150 late charge (three times the initial tank registration fee) is imposed on February 1. The Department of Environmental Protection's (DEP) Bureau of Oil and Hazardous Material Control (Bureau) has one full-time data processing employee to maintain a data base, send out bills, and track fee payments.

Why This Mechanism Was Chosen

State legislators supported the development and implementation of a tank fee for two reasons.

- Traditionally, Maine has used dedicated funding mechanisms for State programs.
- Advocates of the fee argued that tank fees are equitable because owners and operators of tanks are responsible for any contamination caused by UST system leaks.

Maine's fee schedule is based on the idea that smaller facilities with presumably smaller tanks would be less able to pay the fee. DEP acknowledges that the problems caused by leaking tanks bear little relation to tank size and that tank size is not a good indicator of ability to pay. However, DEP believes that net profit, possibly a better indicator, would be difficult to integrate into a fee schedule.

In determining which parties should pay the fee, the legislature excluded tanks that store petroleum for consumption on the premises. While the legislature recognized that all tanks have the potential to leak, it believed that owners and operators of marketing and distribution tanks are in a better position to pay the fee because they sell the product for profit. Just as petroleum wholesalers who pay a product fee pass some or all of the tax burden on to their buyers, so too could tank owners and operators pass the burden on to their customers.

The legislature also believed that it would be easier to administer the fees levied on marketing and distribution tanks than those levied on resi-

dential and industrial tanks because groups of marketing and distribution facilities often have the same owner. (An estimated 5300 marketing and distribution facilities are subject to the fee; some have the same owner. An estimated 6500 residential and 10,000 commercial industrial tanks could be subject to the fee; few have the same owner.)

What Was Learned

Based on the number and kind of tanks, the Bureau projected that the fee would generate approximately $250,000 in the first year. It actually generated $225,000 in the fiscal year from July 1985 to June 1986 and $170,000 for the period from July 1986 through May 1987. The Bureau attributes the discrepancy between actual and projected revenues to changes in the tank population that resulted from 1985 legislation. This legislation imposed liability requirements and tank technical standards. The fee has generated approximately one-fifth of the total funding for the Ground Water Oil Cleanup Fund. The balance is generated through a Petroleum Product Transfer Fee. Bureau officials noted that the tank fee has helped them in updating tank population records and identifying responsible parties in the event of a leak.

Comments

Accounting and data systems need to be well established before this funding mechanism can become effective. Enforcing tank fees and late charges has increased the administrative burden of Bureau staff.

THE FLORIDA TANK REGISTRATION FEE

The Florida Administrative Code requires all owners and operators of storage systems (both above and below ground tanks) containing vehicular fuels to register their tanks with the Florida Department of Environmental Regulation (DER). The State Underground Petroleum Response Act (SUPER) imposes the following fees on a per-tank basis:

- Initial registration $50
- Annual renewal $25
- Late charge (one month late) $20

Revenues from fees on petroleum product tanks are deposited in the Inland Protection Trust Fund, which is used to clean up surface or groundwater contamination related to the storage of petroleum products.

The Storage Tank Regulation Section (the Section) in DER's Bureau of Waste Planning and Regulation is responsible for administering the tank fee. The Section uses the data base compiled during the initial (1984) tank registration effort to identify registrants. It sends a bill to each registrant for the annual renewal fee, which is due no later than June 1.

Why This Mechanism Was Chosen

The Department supported implementation of a tank fee because it assesses the population most likely to be responsible for serious damage from leaks, that is, the owners and operators of large vehicular-fuel tanks. DER officials noted that the larger tanks tend to be in more populated areas and that they could affect a large number of private drinking water sources. The State legislature strengthened the tank fee in 1987 by making it unlawful for a petroleum distributor to sell gasoline to an unregistered facility. DER officials feel that the law has been instrumental in promoting compliance with the registration requirement.

How It Was Implemented

The primary difficulty with implementing the tank fee was establishing an accounting and billing system to accommodate the large numbers of registrants. The first bills for initial registration were sent in February 1987, and the renewal notices were sent in May 1987. When the Section began registering tanks, it employed 13 data entry technicians to handle the heavy administrative burden. Since then, the workload has decreased, and the Section anticipates staff decreases as a result.

What Was Learned

DER officials believe that collecting the fee has sharpened Florida's UST program in the following ways:

- Upon receiving bills, tank owners and operators notified the Bureau to correct errors in the data base. This improved the accuracy of the data base enough to eliminate the necessity of separate tank surveys.

- Approximately 2 percent of the tanks initially registered have been removed or properly closed. The Section believes that these actions resulted from the desire toavoid paying fees on older, noncomplying, or unused tanks.

Because old tanks have been removed or replaced since 1984/85 when the data base was compiled, revenues from the tank fee have been slightly lower than projected. The Section sent 19,236 initial registration fee forms to tank owners in February 1987, representing approximately 56,000 tanks. Payments of the initial fee generated approximately $2.3 million. The Section sent 14,692 renewal fee forms in May 1987 and received $649,000 by the due date. This figure is significantly lower than the $2.3 million figure because it is based on the $25 renewal fee, rather than on the $50 registration fee. Although these funds are used primarily for remedial action, 1 percent of the revenue may be used for administrative costs related to fee collection.

Comments

The Section has received numerous complaints about the fee, most from small gas station owners who claim the fee is unfair or that they are unable to pay. The Section does not believe, however, that the relatively small fee will cause economic hardship. Large motor-fuel distributors have complained as well, claiming that the fee is unfair because they must pay a product tax and a tank fee. Many large distributors who are tank owners have begun to pass the fee on to dealers.

THE MAINE TANK INSTALLER CERTIFICATION FEE

Maine established a certification fee in 1985 to be imposed on all tank installation contractors in the State. Installation contractors applying for certification are required to pay a $35 application and examination fee. This fee allows the applicant to take the oral or written test on underground tank installation rules. First-time applicants must also successfully complete an on-site exam that consists of installing an underground storage tank under the supervision of a member of the State Board of Underground Oil Storage Tank Installers. A $100 fee for this on-site exam is required. Installers are required to renew their license every 2 years, to pay the $35 application and examination fee, and to take the oral or written exam. On-site examinations are not required to renew a license. Currently, there are approximately 250 certified tank installers in the State.

Why This Mechanism Was Chosen

The revenue generated from this mechanism was intended to offset some of the administrative costs of the Board of Underground Storage Tank Installers and the costs of training materials.

How It Was Implemented

Although most staffing costs are provided through the Maine Ground Water Oil Cleanup Fund, this mechanism is useful in generating additional revenue with very few implementation or enforcement problems.

What Was Learned

The State did not have figures for actual revenues collected. However, based on the number of installers currently certified, it can be estimated that the fee has generated $33,750 from initial application and on-site examination fees and that it generates approximately $4,375 per year from renewal fees.

Comments

Officials of the Maine Bureau of Oil and Hazardous Material Control commented that this mechanism may also dissuade unqualified tank installers from applying for certification.

Petroleum Product Assessments

Petroleum product assessments include taxes or surcharges on the manufacture, distribution, sale, or consumption of petroleum products, at either the wholesale or retail level. These taxes can be justified as payment for the cost that their consumption places on society. They are levied on distributors, retailers, and consumers at a rate that may be a percentage of the sale price or a per-unit charge. Petroleum product assessments may vary according to product type and use, and they can exempt certain products or users. There are two major categories of petroleum product assessments:

- Gasoline sales tax, which is usually assessed at a rate per gallon or barrel.
- Petroleum product excise tax, which includes taxes on imports of crude or refined petroleum, licensing fees on processed fuel, and transfer fees.

As shown in Appendix C: Petroleum Product Assessments by State, nine States currently use petroleum product assessments to fund their UST programs. The States are: Florida, Maine, Maryland, Minnesota, New Hampshire, New Jersey, New Mexico, New York, and Wisconsin. Each State levies a petroleum product excise tax. Examples of what two States (Maine and Florida) are doing appear in boxes.

As broad-based mechanisms (mechanisms that spread the burden over a larger population), petroleum product assessments can raise considerable revenues at relatively low rates (for example, only a few cents per barrel or tenths of a cent per gallon). Petroleum product assessments are most beneficial in those States or localities with large petroleum-refining or chemical-processing activities. Keep in mind that the strength of those industries in a particular State may influence the legislative acceptability of petroleum product taxes. In addition, there are differences between sales taxes and petroleum excise taxes that should be considered.

Gasoline Sales Tax

The precedent for using a gasoline sales tax to fund UST programs was established with the creation of the LUST Trust Fund, which imposes a tenth of a cent per gallon tax on motor fuels. Because of the broad tax base, gasoline taxes have the potential to raise considerable revenues at relatively low rates (for example, tenths of a cent per gallon). Total revenues, however, will fluctuate with consumption, which rises or falls with changes in price. While virtually every State levies a tax on gasoline, many currently use the revenues only for road construction or transportation services; in some States, use of gasoline taxes may be constitutionally restricted to those activities. In addition, the gasoline sales tax is increasingly used as a means to raise general revenues at the State level. The revenue-generating potential for UST programs may, therefore, be limited.

The economic impact of a gasoline sales tax depends on where the tax is imposed; it could be imposed on producers, distributors, wholesalers, or retailers. One concern is that gasoline taxes tend to be regressive, meaning that low-income consumers pay at the same rate as high-income consumers. Also, increasing a gasoline sales tax could cause some negative economic impacts in those States whose tax rates are already high, especially where consumers can purchase gasoline in border States which charge lower tax rates.

Petroleum Product Excise Tax

The consumption of petroleum products other than gasoline (primarily for manufacturing) is closely tied to overall economic activity. Hence, general trends in the economy may cause petroleum product assessment revenues to fluctuate.

If a petroleum product excise tax is placed on primary feedstocks (such as crude oil), considerable revenue can be generated at very low rates. (This is the mechanism used to fund the Comprehensive Environmental Response, Compensation and Liability Act [CERCLA or Superfund].) For other products manufactured from petroleum (such as benzene, solvents, kerosene, pesticides), the revenue-generating potential may also be considerable, depending on the amount of chemical-industry activity in a given State or locality.

The economic impact of a petroleum product excise tax falls directly on the producers and/or distributors of petroleum products. Because this burden may be passed along to consumers in the form of higher prices, the relatively low tax rates may not significantly affect producers.

THE MAINE PETROLEUM PRODUCT TRANSFER FEE

Maine uses a Petroleum Product Transfer Fee to help support both the Ground Water Oil Cleanup Fund and the Coastal and Inland Surface Oil Cleanup Fund. The fees are paid by oil terminal licensees. Oil terminal facilities are defined as facilities with a greater than 500-barrel-storage capacity that are used or capable of being used for the purpose of transferring, processing, storing, or refining oil. Marinas that are both purchasers and consumers of fuel are exempt from the licensing and fee requirements.

The fee is levied on gasoline and petroleum products and by-products other than gasoline (such as No. 2 and No. 6 fuel oil, kerosene, jet fuel, diesel fuel), liquid asphalt, and crude oil. The fee schedule for the Ground Water Oil Cleanup Fund is:

- Gasoline $0.03/barrel
- Other refined petroleum products (excluding crude oil and liquid asphalt) $0.02/barrel

The fee schedule for the Coastal and Inland Surface Oil Cleanup Fund is:

- Gasoline $0.01/barrel
- Other refined petroleum products (including liquid asphalt) $0.05/barrel
- Crude oil $0.015/barrel

The Transfer Fee is paid monthly by the oil terminal facility licensee. The Department of Environmental Protection's (DEP) Bureau of Administration (Bureau) keeps track of the payments and issues letters if they are not made.

The Ground Water Oil Cleanup Fund is used solely for UST-related activities and receives revenues from tank fees and installer certification fees, as well as from the oil transfer fee. The Coastal and Inland Surface Oil Cleanup Fund is used to respond to surface spills and receives revenues only from the transfer fee.

Why This Mechanism Was Chosen

Legislators developed the Ground Water Oil Cleanup Fund as an extension of Maine's Coastal Protection Fund, which was established in 1970 using an oil transfer fee. Revenues from the fee are divided between the two funds in order to address underground leaks as well as surface spills.

There was some difficulty with equity questions such as whether liquid asphalt producers should be subject to the tax. Negotiations with the affected industries resolved many of the problems encountered in the implementation of the fees.

How It Was Implemented

Because of Maine's experience with its Coastal and Inland Surface Oil Cleanup Fund, implementing the additional fees required less development than would initiating a new tax for the Ground Water Oil Cleanup Fund.

What Was Learned

Oil company compliance has been good. In FY 1987, approximately $1.1 million was generated by the oil transfer fee for the Ground Water Oil Cleanup Fund. An additional $709,000 was generated for the Coastal and Inland Surface Oil Cleanup Fund. In the first three quarters of fiscal year 1988, the transfer fee has generated $686,000 for the Ground Water Oil Cleanup Fund and $560,000 for the Coastal and Inland Surface Oil Cleanup Fund.

THE FLORIDA PETROLEUM PRODUCT TAX

Florida maintains an Inland Protection Trust Fund which is explicitly authorized to address and correct problems caused by leaking petroleum or petroleum product storage tanks. Revenues for the fund are generated primarily through an excise tax on all petroleum products. Additional revenue is generated through a fee on vehicular-fuel storage tanks (described earlier), judgments, recoveries, reimbursements, and loans from other State funds.

This tax is paid by "any person who is licensed by the Department to engage in the production or importation of motor fuel, special fuel, aviation fuel, or other pollutants." While several taxpayers (such as producers exporting beyond the jurisdiction of the State with no intermediate storage) are exempt from this tax, they do not constitute a significant portion of the assessable population. In addition, refunds and credits are available for taxpayers who are double taxed, such as licensed refiners who purchase tax-paid products from another refiner and export these products from the State.

The rate structure of the petroleum product tax is designed to maintain a stable dollar amount in the fund. When the law was passed in 1984, the tax was 10 cents per barrel. The law stipulated that if the fund did not exceed $5 million by January 1, 1987, the tax was to increase to 20 cents per barrel until the fund reached $15 million. At that point, the tax would be reduced to 10 cents per barrel. When the fund reaches $50 million, the tax will be discontinued until the fund falls below $35 million. At that point, a tax of 10 cents per barrel would be assessed once again. These changes in rate would take effect 60 days after the conditions stated in the law are reached. To date, the Petroleum Product Tax has generated approximately $20 million.

The taxpayer submits a monthly report to the Florida Department of Revenue, which administers the tax. The taxes are due on the first of the month following production and are late if paid after the twentieth of the month. Revenues are deposited into the Gas Tax Collection Trust Fund, and the appropriate amount (determined from the monthly report) is then transferred to the Inland Protection Trust Fund.

Why This Mechanism Was Chosen

The Florida legislature reasoned that the cleanup of contaminated sites would be more expedient if a dedicated trust fund, rather than litigation, were used. The primary objection to a Petroleum Product Tax was raised by major oil companies who had upgraded their UST facilities and established their own cleanup funds. Department officials argued that smaller tank owners would not be able to provide sufficient financial assurance.

How It Was Implemented and What Was Learned

The Inland Protection Trust Fund builds on an existing tax on the production and transfer of oil and petroleum products (initially established to support the Coastal Protection Trust Fund). As such, the tax was relatively easy to implement; revenue estimates were based on previous experience.

Bonds

Bonds are distinct from the other funding mechanisms presented in this Handbook. While they can be used to provide one-time or periodic financing, they are not strictly a source of revenues, as bonds must be repaid. Instead, bonds are a means of spreading the funding burden out over time. The issuer of a bond receives monies up front and then repays the bond over time through "debt service," which includes interest expense plus repayment of principal. Debt service can be paid from general revenues, from project revenues, or from special taxes or fees, as described below.

Bonds typically are used in one of two ways by State and local governments. They can provide direct funding for projects (such as wastewater treatment plants or highways) whose large capital costs are incurred immediately but whose benefits extend into the future. Alternatively, they can be used to "capitalize" (or fund) a revolving loan fund.

There are several important factors to consider when evaluating the use of bonds for program funding.

- Examine the expenditure needs of your program. Where program funding needs (for example, for extensive cleanup activities) are higher than amounts that could reasonably be raised with dedicated fees or taxes or appropriated from general revenues, bonds may provide a source of funds.

- Determine how the bonds will be repaid (as they are not a source of revenues in and of themselves).

- Examine the equity of bond financing, that is, the rationale for spreading the funding burden out over many years. Where the benefits from program expenditures will be enjoyed into the future, the repayment of bonds places the funding burden on those future beneficiaries.

- Consider the cost of issuing bonds. A major drawback of bonds is the interest expense, which when extended over 20 or 30 years can more than double the initial project cost in nominal terms.

While some of that cost may be offset by the time value of money (that is, the present value of the debt service used to repay the bonds may equal the initial project cost), there may be other expenses that make the use of bond funding more expensive than other sources of revenues. This last consideration makes bonds generally inappropriate for funding operating costs, such as for prevention activities.

The application of bonds to funding UST programs is limited primarily to cleanup activities. As noted above, bonds typically are used to pay for up-front capital costs; the repayment of debt is then spread out over the useful life of the project. In environmental programs, bonds have been used to pay for cleanups that result in benefits extending long into the future, those benefits being reduction or elimination of threats to public health and the environment (for example, the protection of groundwater). States with considerable bond funding for environmental programs include California, Massachusetts, New Jersey, and New York. These States have approved bonds to support their hazardous waste (or Superfund) cleanup programs, which may extend to problems resulting from UST systems, depending on the substances stored in those tanks and the comprehensiveness of the program.

Government bonds fall into three major classes of debt:

- General obligation bonds.

- Revenue bonds, and

- Special tax bonds.

They differ with respect to the revenue pledged for repayment of debt service, their interest rates, the need for voter appproval, and other restrictions on their use. The following paragraphs describe each of these bonds in greater detail.

General Obligation Bonds

General obligation bonds are paid out of general revenues and have their repayment insured by the full faith, credit, and taxing power of the issuer. If the taxes levied initially are insufficient to meet the interest payments in any period, the issuer is legally obligated to either raise the tax rate or broaden the tax base to obtain the necessary funds. If the issuer's taxing power is limited to a specified tax rate, the bonds are still general obligation bonds, but they are called limited tax bonds. Purchasers must be informed of the limitation on the issuer's taxing power. It should be noted that general obligation bonds, while repaid from general revenues, differ from general revenues as a source of program funding. Essentially, general obligation bonds commit the issuer to payment of debt service from general revenues for the term of the bond. When the program is funded directly from general revenues, those funds are subject to appropriations from year to year.

General obligation bonds often carry the lowest available interest rate of any State of local bond offering because they are backed by the "full faith and credit" of the State or locality. Bond purchasers generally consider this one of the most secure sources of repayment. There are, however, two major restrictions on the use of general obligation bonds. They are subject to voter approval (usually through referendum), and they are limited by ceilings on the total amount of general obligation debt that can be issued by a State or locality. This limit is sometimes expressed on a per capita basis.

Revenue Bonds

Revenue bonds are repaid from revenues generated at facilities constructed with the proceeds of the bond or other facilities owned by the State. Revenues are generated by tolls, charges, or rents. Bonds payable primarily from revenues of a particular facility and also secured by a pledge of the full faith, credit, and taxing power of the issuer are called double-barreled bonds. (For example, sewer bonds are payable primarily from revenues of the sewer system, but they are also secured by the full faith, credit, and taxing power of a city.)

The interest rate on revenue bonds is often higher than the rate on general obligation bonds. This higher rate reflects the inherent "riskiness" of the project (that is, the possibility that revenues generated from user fees would be insufficient to cover debt service) and the lack of full faith and credit backing. For "double-barreled" bonds, the interest rate may be equal to that available on general obligation bonds. One advantage is that revenue bonds generally do not require voter approval and do not count against a State or local government's debt ceiling. The use of revenue bonds for environmental programs (such as USTs) is limited to those projects that may reasonably collect a fee for a product or benefit derived from the expenditure.

Special Tax Bonds

Special tax bonds are repaid only with funds raised by a special tax (such as highway bonds that are repaid only from a gasoline sales tax). These bonds include special assessment bonds, which are payable only from taxes paid by those who benefit from the facilities constructed with the proceeds from the sale of the bonds. (For example, special improvement bonds for curbs and gutters are paid for by citizens who live in the jurisdictions that benefit from the new curbs and gutters.)

The interest rate on special tax bonds is likely to be higher than the rate on general obligation bonds. Again, the interest rate reflects the bond purchasers' perception of the security of the revenue stream pledged for repayment of the debt. If the special tax is subject to legal challenge or repeal, or if it generates an uneven flow of funds (because of, say, changes in the level of economic activity), purchasers may require a higher return on the bond. In most cases, special tax bonds are not subject to voter approval, and they do not count against State or local debt ceilings.

Revolving Loan Funds Capitalized With Bonds

Bonds can also be used to "capitalize" a revolving loan fund program. A revolving loan fund is a program that lends to localities at interest rates equal to or less than the State's own borrowing rate. Under this program, the State issues bonds, whose proceeds are used to set up the fund. The State is then responsible for repaying the debt service on the bonds. Localities can then borrow from the loan fund to finance specific projects and will, in turn, repay the fund. The security of the State debt may be linked to payments from localities.

The major attraction of a revolving loan fund is its potential for long-term self-sufficiency. Once it is capitalized, loan repayments are used to replenish the fund and make loans for future projects, thereby leveraging the State's initial investment. In practice, however, few revolving loan funds operate on a "true" revolving basis, with loan repayments maintaining the fund at a level that would allow it to operate in perpetuity. The ability of a revolving loan fund to maintain its purchasing power will be affected by the terms under which it makes loans to localities. One advantage of this program is that it allows localities to borrow funds at below-market interest rates and to repay those funds over an extended period of time. Such generous lending practices by the State, however, limit the overall funding available through this mechanism.

THE CALIFORNIA HAZARDOUS SUBSTANCE CLEANUP BOND FUND

California established the Hazardous Substance Cleanup Bond Fund (Bond Fund) in 1984 to fund both its share of hazardous waste removal or cleanup activities as required by CERCLA and those waste removal or cleanup activities of State-selected sites that are not eligible for Federal reimbursement. The State appropriated $7.5 million from the Bond Fund to the California Water Resources Quality Control Board to oversee the cleanup of leaking UST systems.

The State may issue up to $100 million in debt for the Bond Fund. When it established the Bond Fund, the legislature specified the methods for repayment of the bonds, the priority of each method, and an account (a hazardous substance clearing account) for making the payments. The sources of funds and their priority for use in repaying the bond are as follows:

- Money from the premium and accrued interest on bond proceeds which are sold.
- Recoveries from responsible parties.
- Federal reimbursements.
- Monies from the Hazardous Waste Disposal Tax up to $5 million and other unobligated monies generated by the tax.
- General revenues.

The Hazardous Waste Disposal Tax funds most of the bond repayment. It is levied on all persons disposing of more than 500 pounds per year of any kind of hazardous waste. Different rates are assigned to different types of hazardous wastes. The rates are adjusted annually so that the total revenue will be $15 million. The tax is to be terminated on July 1, 1991, but State officials believe it may be extended. Although this tax and the other sources for repaying the bond are clearly specified, the bonds are backed by the full faith and credit of the State.

Why This Mechanism Was Chosen

California officials established the Bond Fund because they felt that the Hazardous Waste Disposal Tax alone could not generate sufficient funds to pay the costs of hazardous waste cleanups in the State. The officials decided to forego a portion of the Hazardous Waste Disposal Tax -- $5 million per year and other unobligated monies generated by the tax -- to finance bonds that would generate a large amount of money in a short time. The advantage of this system is that California does not dedicate all tax revenues to bond repayment. As a result, California has both a constant stream of revenues from the Hazardous

Waste Disposal Tax and a large amount of capital from the bonds.

What Was Learned

California has issued $50 million worth of bonds to date and plans to issue $50 million more in 1988. To date the State has been able to finance its entire repayment of these bonds from its top four priority sources (as listed above). No general revenues have been needed or used; the State does not expect to need them for this purpose in the future.

Corporate Receipts or Income Taxes

Corporate receipts or income taxes may be levied on corporations and major businesses within the State. This type of tax could be levied on all corporations or only those that own underground storage tanks or handle petroleum products. In fact, many States already have corporate taxes which are used for other purposes; therefore, these taxes can be added to existing State or local business taxes, eliminating the need to create a new tax.

While both the corporate receipts and income tax mechanisms tax a firm's income, they draw from different bases and apply different rates. Both the corporate receipt tax (often called a gross receipt tax) and the corporate income tax are described below.

- A gross receipts tax uses total revenues as its base; it does not take the firm's expenses into account.
- An income tax uses the firm's revenues after deducting expenses as its base.

A gross receipts tax typically uses a larger dollar base and a lower rate than an income tax. Both taxes can be levied at different rates depending on the size or type of the business, and both can be collected in conjunction with any existing corporate tax and transferred to an appropriate fund. One example of a corporate income tax, the Superfund Corporate Income Tax, is presented below.

The relationship of a corporate receipts or income tax to your UST program will depend on the structure of the tax base -- who and what is taxed? In most cases, small businesses such as "mom and pop" establishments are exempt from this type of tax. However, there are other considerations to be made. For example, if only those businesses that produce, import, or consume petroleum-based products are taxed, one can say that revenues are raised from the parties who potentially contribute to the problem. On the other hand, if the tax base is broader, including, for example, all types of commercial businesses or industries, one can argue that revenues are being raised from those who benefit from UST program activities, and the revenue potential may be much greater.

While the revenue-generating potential of a broad-based corporate receipts or income tax is very high at relatively low rates, corporate receipts and income taxes are subject to fluctuations consistent with the business cycle. They are also subject to change due to modifications in the definition of the tax base (that is, what is considered receipts or income). If the corporate tax base is broad enough, the funding burden will be shared by a large number of taxpaying entities, and the economic impact on individual businesses will be kept to a minimum.

In most States, corporate receipts or income taxes are a component of general revenues. Their percent contribution to general revenues varies from State to State depending on the rates imposed and the other sources of revenues; for example, some States impose no personal income tax. Many State legislators may be unwilling to earmark a portion of business tax revenues for a specific program, believing that all public programs should compete equally for general revenues. Clearly defining the tax base in terms of who pays on which measure and demonstrating the relationship between these parties and the UST problem may help to overcome such obstacles. New Jersey, for example, requires owners and operators of hazardous waste facilities to pay a 5-

percent tax on gross receipts to the municipality in which the facility is located. The municipalities use the receipts from this tax to pay the expenses made necessary by the hazardous waste facility (for example, the extra fire and police protection, the inspection programs, the extra road construction). The connection between those paying the taxes and the use of the tax money is clearly defined. Whether the tax should be on receipts or income depends primarily on the existing State or local tax structure. Most States currently tax net income rather than gross receipts.

THE SUPERFUND CORPORATE INCOME TAX

One of the few examples of a broad-based corporate income tax specifically dedicated to environmental programs is the Environmental Tax passed by Congress in the Superfund Amendments of 1986. The tax is one of several sources of funding for the Hazardous Substances Response Trust Fund (the Federal Superfund), which supports cleanup of hazardous substance releases nationwide. (It does not cover petroleum products.)

The Superfund Environmental Tax is levied at a rate of 0.12 percent of corporate income. Corporate income is based on the Alternative Minimum Taxable Income, as defined by the 1986 Tax Reform Act. There is a deduction of $2 million, thus excluding smaller businesses from the taxable population. There are no other exemptions, and all businesses are subject to the tax. As a result, the tax base is very broad, and a number of benefits therefore accrue. These benefits include the following:

- The tax can generate considerable revenue at a low tax rate.
- The tax can provide a continuous and predictable level of funding, because it is based on aggregate economic activity and not on specific industries.
- The economic impacts are minimal, because the tax burden is spread as wide as possible.
- The tax is relatively simple to administer, because it is based on information already collected by the Internal Revenue Service.

Other Mechanisms in Use

Two States are currently using other funding mechanisms that you might wish to consider. These mechanisms include a tax on fire insurance premiums and a hazardous waste disposal fee. Little detailed information is available on how these mechanisms perform when measured against the factors in Chapter III. However, some data appear in Appendix E: Other Funding Mechanisms by State.

FUNDING MECHANISMS FOR LOCAL PROGRAMS

The following mechanisms appear to be best suited to funding local UST programs. The information in this chapter is presented in the same format as Chapter IV.

Water Utility Assessments

Water utility assessments are fees based on water consumption. The rate may be a percentage of the sale price or a per-unit charge. They can be assessed on business, commercial, or residential consumers. Selected groups may be exempted from the assessment or given a tax credit to offset a portion of their payment. Funds raised may be collected from the water utility and transferred to the appropriate fund. Water utility assessments can generate considerable revenue with a low tax rate because of their large tax base. An example of this mechanism, the Santa Clara Valley Water District Groundwater Charge, is discussed in the inset box below.

Water utility assessments for UST program activities are a relatively new funding approach. Traditionally, localities have placed assessments on water to fund public services and the structure to support those services (such as providing water and maintaining sewers). As States and localities review their groundwater protection efforts, however, water utility assessments may be used more often.

Water utility assessments are directed at the beneficiaries of an UST program--water consumers. As noted above, the tax base for water utility assessments is potentially very large, and considerable funds can be raised with a low tax rate. Further, revenues from water assessments are fairly stable, as water consumption tends to remain constant despite overall economic fluctuations. Rare circumstances, such as extreme drought, can affect revenues.

The greatest burden of water utility assessments is felt by business or commercial firms who consume large quantities of water. It should be noted that inequities among taxpayers can occur if not all sources of water (for example, private wells) are taxed. Using different tax rates for different sources may be the answer: users of public water could have rates based on amount consumed, and owners of private wells could have rates based on an estimated monthly or annual withdrawal.

THE SANTA CLARA VALLEY WATER DISTRICT GROUND WATER CHARGE

The Santa Clara Valley Water District (SCVWD), a government entity in California, funds part of its UST activities through a Pump Tax on water usage that was established in 1963. All water producing facilities, that is, any facility extracting water from the ground for any purpose, must register with the SCVWD. Failure to register is punishable by a fine. All water extracted by a registered facility in the District is taxed at a set rate per acre foot. The District is divided into two zones, each with different tax rates. In the North zone, the rate is $100 per acre foot for water used for nonagricultural purposes and $25 per acre foot for water used for agricultural purposes. In the South zone (which until recently was untaxed), the rate is $22 for nonagricultural uses and $5.50 for agricultural uses. The tax is assessed and collected semi-annually.

How It Was Implemented

The SCVWD has five methods for measuring the amount of water extracted at each facility. For nonagricultural facilities extracting more than 10

acre feet of water in a payment period and agricultural facilities extracting more than 40 acre feet, the SCVWD installs a water meter. The cost of the meter ($250 to $300) and installation are paid for by SCVWD. The SCVWD uses four other less accurate measuring methods for facilities that extract less water than the above amounts. The water meter and three of the alternative methods require on-site readings by the SCVWD. Readings of the water meters at larger facilities are taken monthly, and readings at other facilities are taken semi-annually, prior to the assessment.

What Was Learned

Total revenue produced by the ground-water charge was $20 million in 1987, and SCVWD's total budget is $201 million. Revenues fluctuate with the amount of rain in a given fiscal year. Thus, revenue projections are as accurate as the estimates for the year's rainfall.

Comments and Recommendations

Program officials cite several difficulties in assessing and collecting the groundwater charge. First, identifying the facilities can be time consuming. When the SCVWD recently began taxing a new area, it identified over 4000 facilities. Temporary personnel were hired to canvass the entire area and register all facilities. Second, taking on-site readings is labor intensive. Four of the five measuring systems require them. Third, developing an accurate computerized tracking system is crucial to the success of the revenue collection effort.

Special Property Assessments

Special property assessments are levied against property in a geographic area that is likely to benefit from a project or program. Although the procedures and restrictions on the use of these assessments vary greatly among States and among localities, they are usually restricted to funding local improvements. Special property assessments often differ from traditional property taxes in that the rate is based on the likely benefit the property owner will receive from the program or project as opposed to the value of the property. These assessments could be used to fund an UST program by assessing those property owners likely to benefit from program activities.

To date, special property assessments have not been used to fund UST activities. They are most commonly used to fund infrastructure projects (such as street paving, sewers, sidewalks) or services (such as water, gas, electricity). Property assessments are easier to use when the benefits fall to a well-defined group of property owners, such as the projects and services just mentioned. They may be more difficult to use in an UST program, particularly in densely populated areas, where it is difficult to determine exactly which property owners will benefit. Property assessments may be more applicable in less populated areas (such as unincorporated areas) where the beneficiaries are more easily identified.

Property assessments are limited by the amount and value of property subject to the assessment. If the assessment is a flat rate (for example, a set dollar amount per acre), then revenue potential is limited by acre. If the assessment is based on property value (that is, mills per dollar of assessed value), then revenue is subject to changes in property value. This may be particularly true of properties with underground storage tanks, as their value may decline as a result of a leak and contamination of soil or groundwater. Revenues are also affected by the size of the tax base (that is, whether taxable property is limited to that of the tank owners and operators or whether it extends to adjacent or nearby properties).

The economic impact of special property taxes depends on the assessment rate and the existing property tax burden. If the tax is directed at tank owners and operators, those with large lots or high property value and few tanks may decide to close their tanks. If the tax is directed at adjacent property, it may prove a disincentive to purchase property adjacent to properties containing underground storage tanks.

Property taxes are the domain of local governments. In many jurisdictions, property taxes are used exclusively to fund education and other public services. Some States or localities may be reluctant to expand their use to other purposes, preferring to reserve the revenues for education or other direct services. In addition, some States have capped property assessments in response to taxpayer initiatives.

Other Funding Mechanisms For Local Programs

Some of the mechanisms described in the chapter on State programs can also be used by local jurisdictions. These include:

- General revenues.
- Registration and permit fees.
- Petroleum product fees.
- Bonds.
- Direct assessment for costs incurred in site activities by local agencies.

These mechanisms are already being used in some localities. The general considerations described in Chapter III apply when choosing a funding mechanism for a local jurisdiction.

WHAT SOME OTHER STATES HAVE TRIED: A SUMMARY OF EPA'S 1987 SURVEY

In October 1987, EPA's Regional UST staffs gathered information on the funding mechanisms used for UST programs in all 50 States. Each State identified the kinds of funding mechanisms it was using and when the mechanism was established, who was being assessed and how often, and what fee schedules were being used. No data were requested on the total revenues gathered from or the adequacy of current funding mechanisms, but the States did indicate any limits on individual assessments, caps on total revenues from a mechanism, sunset provisions on the mechanism, and whether new or expanded funding mechanisms were being considered. The results of the survey were distributed in December 1987 in EPA's Interim Report on State Funding for Underground Storage Tank Programs. Since the release of the Interim Report, these data have been updated to include additional data obtained from States. They are presented in Appendices B through E.

Although we include the data to illustrate some of the funding options available to you, please be aware that the data are preliminary in nature. States are continually developing and expanding programs; real program costs are just becoming known; and levels of funding are, in some cases, proving inadequate. Activity in the form of proposed legislation to increase fees and add new funding mechanisms is occurring in some States. Some States are just starting to become active in the area of UST programs. Therefore, we present the data in Appendices B through E with the caveat that they provide merely a snapshot of what is happening now; they do not reflect what may exist once there are more fully operational programs. Rather, they represent programs in many different stages. We do not want to mislead the reader or misrepresent the data.

It should also be noted that this handbook does not provide specific information on what is required to run a successful UST program. Our purpose here is to pass along some ideas, solutions, hints, and suggestions that have been effective for some State and local governments in establishing funding for their programs. EPA is currently collecting data on several State programs that will be published in mid-1988. The Report will document the level of activity and the resources needed to support UST programs in those States; it should be very useful to States looking at ways to design, expand, or reorganize their programs. Also in mid-1988, EPA will release its *State Financial Assurance Program Handbook*, which will contain, as the title suggests, information on establishing financial assurance programs. This handbook will be updated as new data from the States are forwarded to EPA. Both the report and the handbook will be available through EPA Regional Offices and the EPA Hotline.

How Are States Currently Funding Their UST Programs?

Table VI-1 provides a summary of each State's funding sources and supported activities. For further detail on each of the mechanisms included in Table VI-1 (with the exception of general revenues), see Appendices B through E.

One State currently provides no funding for an UST program. Of the 49 States that do provide funding, 22 States use one or more dedicated mechanisms to fund all or part of their programs; 38 use general revenues, either alone or in conjunction with dedicated mechanisms.

Roughly two-thirds of the States (32) rely on a single source of funding for their UST programs. Only five of the 32 rely solely on a dedicated mechanism, the rest use general revenues. Of the 17 States that use more than one mechanism, six rely on dedicated mechanisms alone.

Most States (37) fund both prevention and cleanup programs at some level; 16 use more than one mechanism to do so. Three States fund only cleanup programs, and three fund only prevention programs. Of these six States, only one uses more than one mechanism to fund its program. Six States did not specify how their funds are spent and appear to provide funding only for their match with the Federal UST grant.

As noted earlier in this handbook, registration and permit fees are the most widely used mechanisms at this time, with 17 States using them. Most States currently use these fees to pay for prevention activities. Nine States are using petroleum product assessments; most to pay for cleanup activities. Only two States currently use bonds, and both dedicate the funds to pay for cleanups. One State uses a tax on fire insurance premiums to pay for prevention activities, and one uses a surcharge on hazardous waste disposal to pay for cleanup activities.

What Changes in Funding Sources Are States Considering?

Several States have passed and implemented new funding mechanisms since our survey in October 1987. Several others have either proposed or are considering additional or expanded funding mechanisms. Many of these States currently rely on general revenues for all of their UST funding. This pattern suggests that relying entirely on general revenues has proven inadequate in nearly half of the States that do so. Registration and permit fees are the funding mechanism being considered or proposed most commonly, and some sort of a tax on petroleum products and bonds are being considered in other States.

What Can You Conclude From What Other States Are Doing?

The following generalities may be drawn from the survey results.

- There is no one right way to fund an UST program, although certain funding mechanisms are currently more widely used than others.
- Roughly two-thirds of the States rely on a single source of funding. Most of these States rely on general revenues rather than dedicated funding mechanisms for all of their UST funding.
- Current sources may be proving inadequate. Most State UST programs are relatively young, and they will need additional funding in the future.
- Most States are funding some prevention and cleanup activities.
- New or expanded dedicated funding mechanisms are being considered or proposed in several States. Most of these States currently rely entirely on general revenues.

TABLE VI-1

SUMMARY OF STATE FINANCING MECHANISMS AND ACTIVITIES

STATE	FINANCING MECHANISM					HOW USED		
	General Revenues	Registration/ Permit Fees	Petroleum Product Assessments	Bonds	Other	Prevention Program	Cleanup Program	Prevention & Cleanup Programs
Alabama*	X							
Alaska	X						X	
Arizona	X							X
Arkansas*	X							
California	X							X
		Local permit fees/ state surcharge				X		
				Hazardous Substance Cleanup Bond Fund			X	
Colorado	X							X
Connecticut	X							X
Delaware	X							X
		UST Response Fund						X
Florida		Tank fee				X		
			Petroleum Product Tax				X	
Georgia*								
Hawaii	X					X		
Idaho	X							X

* How Used not indicated

SUMMARY OF STATE FINANCING MECHANISMS AND ACTIVITIES (continued)

STATE	FINANCING MECHANISM					HOW USED		
	General Revenues	Registration/ Permit Fees	Petroleum Product Assessments	Bonds	Other	Prevention Program	Cleanup Program	Prevention & Cleanup Programs
Illinois	X							X
		Tester Registration Fee				X		
		Site Activity Fee				X		
		UST Fund (tank fee)					X	
Indiana	X							X
Iowa	X							X
		Tank fee						X
Kansas	X							X
		Tank fee				X		
Kentucky	X							X
Louisiana		Tank fee						X
Maine		Tank fee				X		
			Petroleum Product Transfer fee				X	
Maryland			Licensing fee on processed fuel					X
Massachusetts	X					X		
				State Superfund			X	
Michigan	X							X

SUMMARY OF STATE FINANCING MECHANISMS AND ACTIVITIES (continued)

STATE	FINANCING MECHANISM					HOW USED		
	General Revenues	Registration/ Permit Fees	Petroleum Product Assessments	Bonds	Other	Prevention Program	Cleanup Program	Prevention & Cleanup Programs
Minnesota	X					X		
			Petrofund					X
Mississippi*	X							
Missouri*	X							
Montana	X							X
Nebraska	X							X
		Tank fee						X
Nevada	X							X
New Hampshire	X					X		
			Oil Transfer Fund				X	
New Jersey		Registration/Annual Certification Fee				X		
			NJ Spill Fund				X	
New Mexico	X							X
		Tank fee				X		
			Tax on gasoline, special fuels				X	

* How Used not indicated

SUMMARY OF STATE FINANCING MECHANISMS AND ACTIVITIES (continued)

STATE	FINANCING MECHANISM					HOW USED		
	General Revenues	Registration/ Permit Fees	Petroleum Product Assessments	Bonds	Other	Prevention Program	Cleanup Program	Prevention & Cleanup Programs
New York		Tank fee (hazardous substances); Facility fee (petroleum)				X		
			Throughput fee					X
North Carolina	X							X
North Dakota	X							X
Ohio					Fire Marshall Operating Fund (tax on fire insurance premiums)	X		
		Tank Permit Fund						X
Oklahoma*	X							
Oregon		Tank fee				X		
					State Superfund (surcharge on hazardous waste disposal)		X	
Pennsylvania	X							X
Rhode Island	X							X
South Carolina	X							X
South Dakota	X							X
Tennessee*	X							
Texas		Tank fee						X

* How Used not indicated

SUMMARY OF STATE FINANCING MECHANISMS AND ACTIVITIES (continued)

STATE	FINANCING MECHANISM					HOW USED		
	General Revenues	Registration/ Permit Fees	Petroleum Product Assessments	Bonds	Other	Prevention Program	Cleanup Program	Prevention & Cleanup Programs
Utah	X					X		
		Tank fee				X		
Vermont		Tank permit fee				X		
Virginia	X							X
Washington	X						X	
West Virginia	X							X
Wisconsin			Fee on petroleum products				X	
Wyoming	X							X

WHERE DO YOU GO FROM HERE?

The prevention and cleanup of leaks from underground storage tanks is a national issue. Congress has provided start-up funding for prevention work and trust funds to support enforcement and corrective action where a release has occurred. However, underground tanks are a local problem first, and State and local program officials will need to develop and provide adequate funding to support their programs. In this report, we have presented you with a range of alternative mechanisms for funding your program. We've described which mechanisms are currently being used and which are being considered by all 50 States. No single mechanism or combination of mechanisms will be right for all States, but we hope that you are now in a better position to make the choice that's right for your circumstances. If you need more information to help with this decision, you can contact the State implementing agencies listed in appendix F for answers to specific or detailed questions, and the Office of Underground Storage Tanks (202-475-9722) for concerns of a more general nature.

COMPARISON OF FINANCING MECHANISMS BY MAJOR CHOICE FACTORS

FINANCING MECHANISM	REVENUE POTENTIAL	CONTINUITY OF FUNDING	LEGISLATIVE ACCEPTABILITY	ECONOMIC IMPACTS/ EQUITY ISSUES	RELATIONSHIP OF TAXED ENTITY TO PROGRAM ACTIVITIES
General Revenues	May vary; dependent on governmental priorities	May vary, dependent on governmental priorities	Dependent on state priorities; actual funding may depend on current priorities	Dependent on the effect on overall tax rate	Taxes program beneficiaries, distributes burden according to jurisdiction's tax structure
Registration and Permit Fees	Limited by number of tanks, personnel, activities, etc. for which fee must be paid	May fluctuate early due to changes in the regulated population	Potentially high; already used in many states and localities	Dependent on rate of fee, number of tanks, facilities, etc., taxed and health of taxed entity	Taxes source of problem, i.e. tank and facility owners and operators, or is directly attributable to program activities
Petroleum Product Assessments	Potentially high; dependent on petroleum usage in the jurisdiction	May fluctuate due to trends in economic activity	Dependent on current tax levels, limitations concerning use, acceptability to industry, etc	Dependent on rate of tax and fiscal condition of taxed entity; can be easily passed on to consumers	Taxes source of problem, i.e. producers and consumers of product
Corporate Receipts or Income Taxes	Potentially high; dependent on size of tax base	May fluctuate due to trends in economic activity or modifications in tax base	Dependent on willingness of legislature to earmark such funds for a specific program	Dependent on rate of tax and fiscal condition of taxed entity, can be easily passed on to consumers	Taxed entity may be source of problem or program beneficiary, depending on whether only hazardous material producers or all corporations are taxed
Water/Utility Assessments	Potentially high; dependent on water usage	Probably stable, but may fluctuate with changes in economic activity or in droughts	Dependent on willingness to use for other than traditional purposes	Dependent on rate of tax and fiscal condition of taxed entity	Taxes program beneficiary, i.e. water consumers
Special Property Assessments	Limited by amount or value of property base	Depends on how it is used; i.e. temporary or permanent funding	Unknown--no known use of this mechanism for UST at this time	Dependent on rate of tax, amount or value of property and condition of taxed entity	Dependent on who is assessed; difficult to define a population who should pay and who will benefit
Bonds	Potentially high; dependent on size of bond issue	Generated all at once or over very short period	May be authorized by legislature; usually subject to voter approval	Dependent on type of bond and source of repayment	Dependent on mechanism to retire the debt

APPENDIX B

REGISTRATION AND PERMIT FEES BY STATE

	California	Delaware	Florida	Illinois
What is the funding mechanism used?	Tank fee	Tank fee	Tank fee	Tank fee
When was the fee established?	1984	1/1/88	1987	1988
Who pays?	Tank owners	Tank owners and operators	Owners of above and below ground tanks	1 Registration fee for owners and operators registered after 1/1/88. 2. Annual tank fee for owners and operators
What is the fee structure and how often is it collected?	1. Annual permit fee that varies among local agencies 2 Per tank state surcharge set annually by legislature and collected once in five years (current surcharge fee is $56)	$50/tank annually; $30/tank for late payment of annual fee	1. $50/tank initial registration fee 2. $25/tank annual renewal fee	1. $500/tank one-time registration fee 2. $100/tank annual fee between 1/1/88 and 12/31/91
Is there a maximum assessment?	NO	NO	NO	NO
Are there any exemptions or restrictions on that which is assessed?	1 Annual permit fee may be waived for state, local, and farm tank owners (1100-1500 gal capacity)	State and county municipal tanks are exempt; restricted to petroleum tanks only	Petroleum tanks < 550 gal are exempt	--
Is there a cap on total revenues? (If so, what?)	NO	NO	NO	NO
Is there a sunset provision? (If so, when?)	Yes; local agencies with own ordinance currently collecting state surcharge stop collecting it on 1/1/90	NO	NO	Yes; 1991
Are any changes planned or anticipated?	NO	Amendment to HB331 anticipated to create UST Response Fund	May be amended to include chemical tanks	--
Used for prevention and/or cleanup program?	Prevention program	Prevention and Cleanup programs	Prevention program	Cleanup program

REGISTRATION AND PERMIT FEES BY STATE

(continued)

	Illinois	Illinois	Iowa	Kansas
What is the funding mechanism used?	Site activity fee	Tester registration fee	Tank fee	Tank fee
When was the fee established?	1988	1988	1986; revised in 1987	1984
Who pays?	Installers, repairers and removers of USTs	Tank tightness testers	Tank owners	Tank owners
What is the fee structure and how often is it collected?	$100/site activity M-F; $200/site activity Sat , Sun. or holiday	$100/tester annually	1 $10/tank one-time registration fee 2. $15/tank annual permit fee	$3/tank annually
Is there a maximum assessment?	NO	NO	NO	NO
Are there any exemptions or restrictions on that which is assessed?	--	--	Tanks < 1100 gal. are exempt	Farm tanks; only collected on petroleum product tanks
Is there a cap on total revenues? (If so, what?)	NO	NO	NO	NO
Is there a sunset provision? (If so, when?)	YES; 1991	YES; 1991	NO	NO
Are any changes planned or anticipated?	NO	NO	NO	YES
Used for prevention and/ or cleanup program?	Prevention program	Prevention program	Prevention and Cleanup programs	Prevention program

REGISTRATION AND PERMIT FEES BY STATE
(continued)

	Louisiana	Maine	Nebraska	New Jersey
What is the funding mechanism used?	Tank fee	Tank fee	Tank fee	Facility fee
When was the fee established?	1985	1985	1986	1986
Who pays?	Tank owners	Distributors and marketers	Tank owners	Facility owners
What is the fee structure and how often is it collected?	1. $25/tank one-time registration fee for chemical tanks $15/tank one-time registration fee for petroleum tanks 2. $15/tank annually for > 10000 gal. $10/tank annually for 2000-9999 gal $5/tank annually for ≥ 1000-1999 gal.	1. $50/tank one-time registration fee 2. $25/tank annually for < 6000 gal. $50/tank annually for ≥ 6000 gal	1. $5/tank one-time registration fee 2. $7 50/tank annually for < 2500 gal. $10/tank annually for ≥ 2500 gal. and < 5000 gal. $12.50/tank annually for ≥ 5000 and < 7500 gal. $15/tank annually for ≥ 7500 gal.	$100/facility annually for facilities with 1-5 tanks; $15/tank additional for each tank over 5 at a facility
Is there a maximum assessment?	1. $1000/ceiling on registration fees for petroleum 2. No ceiling on annual fees	--	NO	NO
Are there any exemptions or restrictions on that which is assessed?	Same as in EPA proposed regulations	--	NO	NO
Is there a cap on total revenues? (If so, what?)	NO	--	NO	NO
Is there a sunset provision? (If so, when?)	NO	--	NO	NO
Are any changes planned or anticipated?	Looking into changing to tax on gasoline	--	Program will be reviewed. A "Superfund" bill for corrective action will be reintroduced in 1988.	NO
Used for prevention and/or cleanup program?	Prevention and Cleanup programs	Prevention program	Prevention and Cleanup programs	Prevention program

REGISTRATION AND PERMIT FEES BY STATE
(continued)

	New Mexico	New York	New York	Ohio
What is the funding mechanism used?	Tank fee	Tank fee (Hazardous Substances)	Facility fee (Petroleum)	Tank fee
When was the fee established?	6/1/88	1986	1983	1988
Who pays?	Tank owners	Tank owners	Facility owners	Tank owners
What is the fee structure and how often is it collected?	$28/tank annually in 1988, Subsequent fees to be established by NM Environmental Improvement Board	$50/tank every 2 yrs. for < 550 gal $100/tank every 2 yrs. for ≥ 550 and < 1100 gal $125/tank every 2 yrs for ≥ 1100 gal.	$50/facility every 5 yrs for >1100 and < 5000 gal. $150/facility every 5 yrs. for ≥ 5000 and < 10000 gal $250/facility every 5 yrs. for ≥ 10000 gal.	$20/tank every 3 yrs. plus fines, penalties
Is there a maximum assessment?	NO	$50,000/site*	NO	NO
Are there any exemptions or restrictions on that which is assessed?	Same as in EPA proposed regulations except heating oil tanks	Process, farm and movable tanks are exempt	Facilities < 1100 gal. are exempt	State and local government tanks are exempt
Is there a cap on total revenues? (If so, what?)	NO	NO	NO	NO
Is there a sunset provision? (If so, when?)	NO	NO	NO	NO
Are any changes planned or anticipated?	NO	NO	NO	--
Used for prevention and/or cleanup program?	Prevention program	Prevention program	Prevention program	Prevention and Cleanup programs

* Maximum assessment for facility with multiple tanks.

REGISTRATION AND PERMIT FEES BY STATE
(continued)

	Oregon	Texas	Utah	Vermont
What is the funding mechanism used?	Tank fee	Tank fee	Tank fee	Tank fee
When was the fee established?	2/88	1987	1987	1987
Who pays?	Tank owners or operators	Tank owners	Tank owners	Tank owners or operators
What is the fee structure and how often is it collected?	1. $25/tank one-time permit application fee 2. $25/tank annual compliance fee ($20/ tank annually after 7/1/89)	$25/tank annually maximum	$25/tank annually*	$25/tank annually
Is there a maximum assessment?	NO	NO	YES; $100/tank**	--
Are there any exemptions or restrictions on that which is assessed?	Tanks exempt by Subtitle I of RCRA are exempt	Permanently out-of-service tanks are exempt	NO	--
Is there a cap on total revenues? (If so, what?)	NO	NO	NO	--
Is there a sunset provision? (If so, when?)	NO	NO	Annual legislative approval required	--
Are any changes planned or anticipated?	NO	NO	YES	--
Used for prevention and/ or cleanup program?	Prevention program	Prevention and Cleanup programs	Prevention program	Prevention program

* Authority to $100/tank, with public hearings required to raise the rate

** The 1988 Legislature provided for a legislative task force to examine the entire state UST issue Accommodations on their findings will be made this year. A $60/tank assessment has been proposed

APPENDIX C

PETROLEUM PRODUCT ASSESSMENTS BY STATE

	Florida	Maine	Maryland	Minnesota
What is the funding mechanism used?	Transfer tax on petroleum imported into state	Oil transfer fee	Licensing fee on processed fuel	Petroleum tank release cleanup fee
When was the fee established?	1987	1985; revised 1987	1973	1987
Who pays?	--	Oil terminal facility licensees	Bulk oil handlers	Petroleum product distributors
What is the fee structure and how often is it collected?	$.10/barrel monthly*	$.03/barrel monthly for gasoline $.02/barrel monthly for refined petroleum products and by-products	3/4 cent/barrel monthly for oil**	$10/1000 gal. petroleum#
Is there a maximum assessment?	--	--	3/4 cent/barrel; flat fee	NO
Are there any exemptions or restrictions on that which is assessed?	--	Gasoline and liquid asphalt are not included in by-product tax	Only bulk oil products	--
Is there a cap on total revenues? (If so, what?)	$50 million	NO	$750,000	NO##
Is there a sunset provision? (If so, when?)	1992	--	NO	NO
Are any changes planned or anticipated?	--	--	YES	NO
Used for prevention and/or cleanup program?	Cleanup program	Cleanup program	Prevention and Cleanup programs	Prevention and Cleanup programs

* If the fund falls below $5 million, the rate is increased to $.20/barrel. When the fund increases to $15 million, the rate drops back to $.10/barrel. When the fund exceeds $50 million, no excise tax will be collected until the fund falls below $35 million.

** Collection would stop if the fund reaches $750,000. It would be reinstated if the fund falls below $500,000.

\# The fee will be collected initially during October and November 1987, until $5 million is collected. Collections of the fee will be reinstated when the fund balance approaches $1 million

The original collection will be $5-6 million, which probably represents the fund's maximum amount.

PETROLEUM PRODUCT ASSESSMENTS BY STATE
(continued)

	New Hampshire	New Jersey	New Mexico	New York
What is the funding mechanism used?	Oil transfer fee	New Jersey Spill Fund--transfer fee	Tax on gasoline and special fuels	Throughput fee
When was the fee established?	1979	1971	1988	1977
Who pays?	Distributors/retailers	Tank owners	Distributors/retailers	Terminal operators with > 400,000 gal capacity
What is the fee structure and how often is it collected?	$ 025/barrel monthly	$.01/barrel annually	2/10 cent/gallon collected at point of sale	$.035/barrel monthly ($ 01 for cleanup funds, $ 025 for solid waste facilities)
Is there a maximum assessment?	NO	NO	2/10 cent/gallon	NO
Are there any exemptions or restrictions on that which is assessed?	NO	NO	NO	NO
Is there a cap on total revenues? (If so, what?)	$2 75 million	$50 million	$10 million	$25 million
Is there a sunset provision? (If so, when?)	NO	NO	NO	NO
Are any changes planned or anticipated?	May expand to include tank replacement costs in 1988	NO	NO	NO
Used for prevention and/ or cleanup program?	Cleanup program	Cleanup program	Cleanup program	Prevention and Cleanup programs

PETROLEUM PRODUCT ASSESSMENTS BY STATE (continued)

	Wisconsin
What is the funding mechanism used?	Petroleum storage cleanup fund; fee on petroleum products
When was the fee established?	1987
Who pays?	Wholesalers/dealers (usually wholesalers)
What is the fee structure and how often is it collected?	--
Is there a maximum assessment?	--
Are there any exemptions or restrictions on that which is assessed?	--
Is there a cap on total revenues? (If so, what?)	To be determined
Is there a sunset provision? (If so, when?)	NO
Are any changes planned or anticipated?	YES, legislation under development
Used for prevention and/ or cleanup program?	Cleanup program

APPENDIX D

BONDS BY STATE

	California	Massachusetts
What is the funding mechanism used?	Bond issue	Bond issue
When was the fee established?	1987	1983
Who pays?	Hazardous waste generators	Taxpayers
What is the fee structure and how often is it collected?	--	--
Is there a maximum assessment?	--	--
Are there any exemptions or restrictions on that which is assessed?	--	--
Is there a cap on total revenues? (If so, what?)	$15 million	$25 million
Is there a sunset provision? (If so, when?)	1989	NO
Are any changes planned or anticipated?	NO	NO
Used for prevention and/ or cleanup program?	Cleanup program	Cleanup program

APPENDIX E

OTHER FUNDING MECHANISMS BY STATE

	Ohio	Oregon
What is the funding mechanism used?	Tax on fire insurance premiums	Surcharge on hazardous waste disposal (for state Superfund)
When was the fee established?	1979	1986
Who pays?	Anyone who buys fire insurance	Disposers
What is the fee structure and how often is it collected?	3/4 of 1% of fire insurance premiums semi-annually	$20/ton collected at disposal
Is there a maximum assessment?	NO	NO
Are there any exemptions or restrictions on that which is assessed?	Funds can only be used to administer the Fire Marshall Division	NO
Is there a cap on total revenues? (If so, what?)	NO	NO
Is there a sunset provision? (If so, when?)	NO	NO
Are any changes planned or anticipated?	YES; a permit fund will be implemented 1/1/88	NO
Used for prevention and/or cleanup program?	Prevention program	Cleanup program

STATE IMPLEMENTING AGENCIES

State	*Agency*
Alabama	Department of Environmental Management Ground Water Section/Water Division 1751 Federal Drive Montgomery, AL 36130 (205) 271-7832
Alaska	Department of Environmental Conservation Pouch O Juneau, AK 99811 (907) 465-2653
Arizona	UST Coordinator Department of Environmental Quality Environmental Health Services 2005 N. Central Phoenix, AZ 85004 (602) 257-2318
Arkansas	Department of Pollution Control and Ecology P.O. Box 9583 Little Rock, AR 72219 (501) 562-7444
California	State Water Resources Control Board P.O. Box 100 Sacramento, CA 95801 (916) 322-0210
Colorado	Department of Health Waste Management Division Underground Tank Program 4310 East 11th Avenue Denver, CO 80220 (303) 331-4864
Connecticut	Hazardous Materials Management Unit Department of Environmental Protection State Office Building 165 Capitol Avenue Hartford, CT 06106 (203) 566-4630
Delaware	Division of Air and Waste Management Department of Natural Resources and Environmental Control P.O. Box 1401 89 Kings Highway Dover, DE 19903 (302) 736-3693

State	*Agency*
Florida	Department of Environmental Regulation Solid Waste Section Twin Towers Office Building 2600 Blair Stone Road Tallahassee, FL 32399 (904) 488-0300-2400
Georgia	Mike Williams, Chief UST Section Ground-Water Protection Branch Water Management Division U.S. EPA, Region IV 345 Courtland Street Atlanta, GA 30365 (404) 347-3866
Hawaii	Administrator, Hazardous Waste Program (UST) 645 Halekauwila Street Honolulu, HI 96813 (808) 548-2270 Department of Health P.O. Box 3378 Honolulu, HI 96801-9984 (808) 548-2270
Idaho	Underground Storage Tank Coordinator Water Quality Bureau Department of Health and Welfare Division of Environment 450 W. State Street Boise, ID 83720 (208) 334-5847
Illinois	Underground Storage Tank Coordinator (Coordinating Agency) Division of Fire Prevention Office of State Fire Marshall 3150 Executive Park Drive Springfield, IL 62703-4599 Illinois EPA (Lead Agency) Division of Land Pollution Control Environmental Protection Agency 2200 Churchhill Road, Room A-104 Springfield, IL 62706 (217) 782-6760

State	Agency
Indiana	Underground Storage Tank Program Office of Environmental Response Department of Environmental Management 105 South Meridian Street Indianapolis, IN 46223 (317) 243-5055
Iowa	Department of Water, Air, and Waste Management 900 East Grand Des Moines, IA 50319 (515) 281-5968
Kansas	Department of Health and Environment Forbes Field, Building 740 Topeka, KS 66620 (913) 862-9369
Kentucky	Department for Environmental Protection Hazardous Waste Management Fort Boone Plaza, Building #2 18 Reilly Road Frankfort, KY 40601 (502) 564-6716
Louisiana	Department of Environmental Quality P.O. Box 44066 Baton Rouge, LA 70804 (504) 342-7808 or 9030
Maine	Underground Tanks Program Bureau of Oil and Hazardous Material Control Department of Environmental Protection State House - Station 17 Augusta, ME 04333 (207) 289-2651
Maryland	Department of the Environment Hazardous and Solid Waste Management Administration 201 West Preston Street Baltimore, MD 21201 (301) 225-6549
Massachuchetts	UST Registry, Department of Public Safety 1010 Commonwealth Avenue Boston, MA 02215 (617) 566-4500 Department of Environmental Quality Engineering (LUST) 1 Winter Street Boston, MA 02108 (617) 292-5648
Michigan	Groundwater Quality Division (UST Notification) Department of Natural Resources Box 30157 Lansing, MI 48909 Michigan Department of Natural Resources Waste Mangement Division P.O. Box 30028 Lansing, MI 48909 (517) 373-2794
Minnesota	Underground Storage Tank Program Division of Solid and Hazardous Wastes Minnesota Pollution Control Agency 520 West Lafayette Road St. Paul, MN 55155 (612) 296-7743
Mississippi	Department of Natural Resources Bureau of Pollution Control Underground Storage Tank Section P.O. Box 10385 Jackson, MS 3209
Missouri	Department of Natural Resources P.O. Box 176 Jefferson City, MO 65102 (314) 751-7428
Montana	Solid and Hazardous Waste Bureau Department of Health and Environmental Science Cogswell Building - Room B-201 Helena, MT 59620
Nebraska	Nebraska State Fire Marshall (UST) P.O. Box 94677 Lincoln, NE 68509-4677 (402) 471-9465 Department of Environmental Control Box 94877 State House Station Lincoln, NE 68509 (402) 471-4230
Nevada	UST Coordinator Division of Environmental Protection Department of Conservation and Natural Resources Capitol Complex, 201 S. Fall Street Carson City, NV 89710 (702) 885-4670

State	Agency
New Hampshire	Department of Environmental Services Water Supply and Pollution Control Division Hazen Drive P.O. Box 95 Concord, NH 03301 (603) 271-3503
New Jersey	Underground Storage Tank Coordinator Department of Environmental Protection Division of Water Resources (CN-029) Trenton, NJ 08625 (609) 984-3156
New Mexico	Health and Environment Department Environmental Improvement Division P.O. Box 968 Santa Fe, NM 87504 (505) 827-2894
New York	Bulk Storage Section Division of Water Department of Environmental Conservation 50 Wolf Road, Room 326 Albany, NY 12233-0001 (518) 457-4351
North Carolina	Division of Environmental Management Ground-Water Operation Branch Department of Natural Resources and Community Development P.O. Box 27687 Raleigh, NC 27611 (919) 733-6926
North Dakota	Division of Hazardous Management and Special Studies Department of Health Box 5520 Bismarck, ND 58502-5520 (701) 224-2366
Ohio	State Fire Marshall's Office Department of Commerce 8895 E. Main Street Reynoldsburg, OH 43068 (614) 864-5510
Oklahoma	Underground Storage Tank Program (UST) Oklahoma Corporation Commission Jim Thorpe Building Oklahoma City, OK 73105 (405) 521-3107 Oklahoma Department of Pollution Control (LUST) P.O. Box 53504 Oklahoma City, OK 73152 (405) 271-4468
Oregon	Department of Environmental Quality 811 SW Sixth Avenue Portland, OR 97204 (503) 229-5153 or 5733
Pennsylvania	Department of Environmental Resources Bureau of Water Quality Management Non-Point Source and Storage Tank Section 9th Floor Fulton Building P.O. Box 2063 Harrisburg, PA 17120 (717) 787-8184
Rhode Island	UST Registration Department of Environmental Management 83 Park Street Providence, RI 02903 (401) 277-2234
South Carolina	Ground-Water Protection Division Department of Health and Environmental Control 2600 Bull Street Columbia, SC 29201 (803) 734-3296
South Dakota	Office of Water Quality Department of Water and Natural Resources Joe Foss Building Pierre, SD 57501 (605) 773-5335
Tennessee	Division of Ground-Water Protection (UST) Department of Health and Environment 150 9th Avenue, North Nashville, TN 3719-5404 (615) 741-0690
Texas	Texas Water Commission P.O. Box 13087 Austin, TX 78711 (512) 463-7786
Utah	Division of Environmental Health (UST) P.O. Box 45500 Salt Lake City, UT 84145-0500 (801) 533-6121 Bureau of Solid and Hazardous Waste (UST) Division of Environmental Health 288 N. 1460 West P.O. Box 16690 Salt Lake City, UT 84116-0690 (801) 538-6170

State	*Agency*
Vermont	Underground Storage Tank Program (UST) Vermont AEC/Waste Management Division State Office Building Montpelier, VT 05602 (802) 828-3395
	Department of Environmental Conservation (LUST) 103 South main Street Waterbury, VT 05676 (802) 244-8702
Virginia	Virginia Water Control Board P.O. Box 11143 Richmond, VA 23230-1143 (804) 257-6685
Washington	Department of Ecology, M/S PV-11 Solid and Hazardous Waste Program Olympia, WA 98504 (206) 459-6272
West Virgina	UST Notification Solid and Hazardous Waste Ground Water Branch Department of Natural Resources 1201 Greenbriar Street Charleston, WV 25311 (304) 348-5935
Wisconsin	Bureau of Petroleum Inspection P.O. Box 7969 Madison, WI 53707 (608) 266-7605
Wyoming	Water Quality Division Department of Environmental Quality Herschler Building, 4th Floor West 122 West 25th Street Cheyenne, WY 82002 (307) 777-7085