

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: SB 1000 (First Edition)

SHORT TITLE: Motor Oil ADF/Used Oil Program

SPONSOR(S): Senator Fountain Odom

FISCAL IMPACT					
	Yes (x)	No ()	No Estimate Available ()		
	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>	<u>FY 2002-03</u>	<u>FY 2003-04</u>
REVENUES					
Used Oil Collection Fund	\$740,000	\$1,477,000	\$1,492,000	\$1,507,000	\$1,522,000
Solid Waste Management Trust Fund	\$39,000	\$78,000	\$79,000	\$79,000	\$80,000
EXPENDITURES					
Used Oil Collection Fund					
- DENR Admin. (7%)	\$51,800	\$103,390	\$104,440	\$105,490	\$106,540
- Grants	\$688,200	\$1,373,610	\$1,387,560	\$1,401,510	\$1,415,460
General Fund					
- DOR (not funded)	\$180,000	\$180,000	\$180,000	\$180,000	\$180,000
- DENR (not funded)	\$75,281	\$114,272	\$114,272	\$114,272	\$114,272
POSITIONS:					
DENR *	5	5	5	5	5
DOR		not yet determined			
* The 7% administrative allotment from the Used Oil Collection Fund is insufficient to fund the five positions requested by DENR to administer the Used Oil Program.					
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED:					
	Department of Revenue (DOR)				
	Department of Environment and Natural Resources (DENR)				
	Department of Transportation (DOT)				
EFFECTIVE DATE: This act becomes effective January 1, 2000					

BILL SUMMARY:

This bill imposes a two cents per quart advance disposal fee on each quart of oil sold in North Carolina. The oil distributor or wholesale dealer collects this fee and remits it to the Department of Revenue, minus a 2% merchant discount, either monthly or quarterly depending on the volume of tax. A motor oil license is required of distributors (\$25) and for retailers that buy non-tax paid motor oil (\$5). Revenue from the fee and license is deposited into the Used Oil Collection Fund (95%) and the Solid Waste Management Trust Fund (5%). The Department of Environment and Natural Resources will administer the Used Oil Collection Fund and a new Used Oil Collection Program. The Used Oil Collection Fund will be used to make grants for 1) establishing certified used oil collection centers, 2) promoting the collection and recycling of used oil, 3) establishing curbside collection of oil, 4) educating the public about oil recycling, and 5) encouraging “do-it-yourselfers” to return oil to used oil collection centers.

ASSUMPTIONS AND METHODOLOGY:

REVENUE

The major source of revenue for the new Used Oil Collection Fund is a 2 cents per quart of oil advance disposal fee. There are no statistics on motor oil sales in North Carolina, so an estimate must be derived from vehicle registrations and average motor oil usage per vehicle. On February 15, 1999, the Division of Motor Vehicles reported 5,919,523 vehicles registered in North Carolina. The vehicles registered include autos, trucks, motorcycles, buses, tractor trucks and recreational vehicles, but excludes trailers. Cars and light trucks make up 97.5% of the registered vehicles. The number of vehicles will grow at the same rate as population or 1% a year. The Used Oil Program Coordinator for the American Petroleum Institute estimates that the average vehicle in the US will use 3.3 gallons of oil each year based on oil changes every 3,000 miles and 12,000 miles traveled each year. Based on these assumptions, North Carolina’s 5.9 million vehicles are expected to use 19.5 million gallons or 78.1 million quarts of motor oil in 1999.

The chart below shows the calculation of the revenue from the two cents per quart fee. Annual vehicle registrations have been converted into fiscal year estimates by simply taking half of one calendar year plus half of the next calendar year. With a January 1, 2000 start-up date, FY 1999-00 will realize only half of the revenue shown below.

	NC Vehicles	Annual Gallons per vehicle	Total NC Gallons	Convert to Quarts	2 cents per quart
FY 99-00	5,949,121	3.3	19,632,098	78,528,392	\$1,570,568
FY 00-01	6,008,612	3.3	19,828,419	79,313,676	\$1,586,274
FY 01-02	6,068,698	3.3	20,026,703	80,106,813	\$1,602,136
FY 02-03	6,129,385	3.3	20,226,970	80,907,881	\$1,618,158
FY 03-04	6,190,679	3.3	20,429,240	81,716,960	\$1,634,339

Before the revenues from the advance disposal fee are reported to the Department of Revenue, the wholesale dealer, distributor, or retail dealer will deduct 2% of the proceeds for administrative expenses. The Department of Revenue will deposit 95% of the remaining funds into the new Used Oil Collection Fund and 5% into the Solid Waste Management Trust Fund.

Estimated	2% Merchant	Used Oil Fund	Solid Waste Fund
------------------	------------------------	--------------------------	-----------------------------

	<u>Revenue</u>	<u>Discount</u>	<u>Net deposit</u>	<u>95%</u>	<u>5%</u>
FY 99-00	\$785,284	\$15,706	\$769,578	\$731,099	\$38,479
FY 00-01	\$1,586,274	\$31,725	\$1,554,548	\$1,476,821	\$77,727
FY 01-02	\$1,602,136	\$32,043	\$1,570,094	\$1,491,589	\$78,505
FY 02-03	\$1,618,158	\$32,363	\$1,585,794	\$1,506,505	\$79,290
FY 03-04	\$1,634,339	\$32,687	\$1,601,652	\$1,521,570	\$80,083

Another component of the advance disposal fee is a continuing motor oil license that is charged to wholesale distributors (\$25) and retailers (\$5). This note assumes it is one-time fee per business location. There are thousands of gas stations, drug stores, convenience marts, and other retailers that sell motor oil. For example, there are 7,629 gas stations in 1999 monitored by the Department of Agriculture and Consumer Services. However, this advance disposal fee will likely be collected at the wholesale level. The North Carolina Petroleum Marketers Association estimates there are 350 wholesale distributors of motor oil in North Carolina. This number is consistent with Department of Revenue data for privilege licenses sold to wholesale distributors of motor oil prior to the license repeal in 1997. From 1993 to 1995, the number of privilege licenses for wholesale oil distributors averaged 361. The revenue from 350 wholesale motor oil licenses will be \$8,750 in FY 1999-00 and will be deposited into the two funds mentioned above.

EXPENDITURES

The Department of Environment and Natural Resources (DENR) will receive 7% of the Used Oil Collection Fund for administrative expenses or approximately \$105,000 a year. However, this amount is insufficient to cover the expenses projected by the Department to develop and administer the Used Oil Collection Program. The Program includes grant-making, technical assistance, and toll-free telephone information. The Department's fiscal estimate for SB 1000 is shown below.

Cost Items	FY 1999-00*	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
1 FTE Used Oil Grant Program Administrator – Environmental Specialist III, Grade 72					
Salary and Benefits	\$20,291	\$40,582	\$40,582	\$40,582	\$40,582
Equipment, Furniture, and Supplies	\$3,800	\$300	\$300	\$300	\$2,800
Telephone (includes toll free line)	\$500	\$1,000	\$1,000	\$1,000	\$1,000
Printing and Postage	\$1,500	\$3,000	\$3,000	\$3,000	\$3,000
Travel	\$2,500	\$5,000	\$5,000	\$5,000	\$5,000
Rent (leased space)	\$3,000	\$6,000	\$6,000	\$6,000	\$6,000
4 FTE Used Oil Program regulatory specialists – Environmental Technician, Grade 65					
Salary and Benefits	\$61,290	\$122,580	\$122,580	\$122,580	\$122,580
Equipment, Furniture, and Supplies	\$15,200	\$1,200	\$1,200	\$1,200	\$11,200
Telephone	\$1,000	\$2,000	\$2,000	\$2,000	\$2,000
Printing and Postage	\$1,000	\$2,000	\$2,000	\$2,000	\$2,000
Travel	\$5,000	\$10,000	\$10,000	\$10,000	\$10,000
Rent (leased space)	\$12,000	\$24,000	\$24,000	\$24,000	\$24,000
TOTAL	\$127,081	\$217,662	\$217,662	\$217,662	\$230,162

* 1999-00 reflects a half year because act takes effect January 1, 2000.

The Department of Revenue will have expenses related to the collection of the advance disposal fee, but there is no compensation for the Department in the bill. The Department has enumerated the following administrative tasks it will undertake to comply with SB 1000:

- Add a new tax type to computer program and change accounting systems
- Develop, print and mail notices and booklets to taxpayers
- Process tax forms submitted by taxpayers
- Answer phone calls about new fee
- Mail delinquent notices
- Audit and hold hearings on new fee

The Department is reimbursed for its expenses in collecting the white goods disposal tax and the scrap tire disposal tax. In FY 1997-98, the Department received \$164,154 to administer the white goods tax and \$193,485 to administer the scrap tire disposal tax. The Department provided no details of its projected costs to collect the advance disposal fee, but estimated that it would be in the range of the scrap tires and white goods taxes. This note will assume the average of those two collection expenses or \$180,000 per year. For FY 1999-00, the mid year starting date will reduce some operating expenses, but the full \$180,000 is used due to the up-front costs of programming, printing, and postage.

TECHNICAL CONSIDERATIONS:

A bill analysis of SB 1000 by the Department of Revenue on May 6, 1999 noted the following technical errors:

- The bill appears to have been drafted such that if recycled motor oil is blended to create motor fuel, the the oil is then subject to **both** the advance disposal fee and the motor fuel excise tax -- is this the intent?
- ◆ The advance disposal fee should be referred to as an *excise tax* so general tax collection and administrative provisions in the North Carolina General Statutes will apply.
- ◆ Motor oil is not defined clearly. If greases are considered motor oil, then the advance disposal fee must also be levied by weight.
- ◆ The Department of Revenue prefers that the reference to monthly and quarterly reports in the bill be renamed *returns*. For example, a taxpayer remitting sales tax proceeds files a sales tax return according to GS 105-164.16. Another example is GS 105-163.6 that requires employers to file returns to pay withheld income taxes.
- ◆ The Department is uncertain what should be included in the term “industrial machinery”.
- ◆ Does the bill sponsor understand that blending recycled motor oil to create motor fuel makes the oil subject to the advance disposal fee and the motor fuel excise tax?
- ◆ The bill does not specify how often the proceeds are to be distributed.

FISCAL RESEARCH DIVISION 733-4910
PREPARED BY: Richard Bostic

APPROVED BY: Tom Covington

DATE: Tuesday, May 11, 1999

Official
Fiscal Research Division
Publication



Signed Copy Located in the NCGA Principal Clerk's Offices