

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. NO.: 3959-01  
BILL NO.: HB 1801  
SUBJECT: Department of Natural Resources; Ethanol Phase-in  
TYPE: Original  
DATE: February 16, 2000

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Petroleum Inspection Fund	\$0	(\$122,614)	(\$111,977)
Road Fund	\$0	(\$1,103)	(\$2,272)
<b>Total Estimated Net Effect on <u>All</u> State Funds</b>	<b>\$0</b>	<b>(\$123,717)</b>	<b>(\$114,249)</b>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
None	\$0	\$0	\$0
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 6 pages.

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**FISCAL ANALYSIS**

ASSUMPTION

Officials from the **Department of Revenue** assume their agency would not be fiscally impacted by this proposed legislation.

Officials from the **Office of the Secretary of State** assume that based on experience with other agencies, the rules, regulations and forms issued by the Department of Agriculture could require as many as approximately 10 pages in the *Code of State Regulations*. For any given rule, roughly half again as many pages are published in the *Missouri Register* as in the *Code* because cost statements, fiscal notes and the like are not repeated in *Code*. These costs are estimated. The estimated cost of a page in the *Missouri Register* is \$22.50. The estimated cost of a page in the *Code of State Regulations* is \$26.50. Therefore, the total estimated cost for FY 01 is \$602.50. The actual costs could be more or less than the numbers given. The impact of this legislation in future years is unknown and depends upon the frequency and length of rules filed, amended, rescinded or withdrawn.

Officials from the **Department of Natural Resources** assumes that because this bill places responsibility for the phase out of RFG containing MTGE. and phase in of RFG with 10% ethanol, beginning January 1, 2002, on the Department of Agriculture, this bill will have no fiscal impact on the Department of Natural Resources.

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

Furthermore, because the federal Clean Air Act mandates only the amount of oxygenate required in federal RFG, not the type of oxygenate (either MTBE or ethanol), there may be legal challenges to this legislation. The CAA of 1990 under Section 211 requires that states receive a waiver prior to implementing changes to nationally specified gasoline. Also, the base gas vapor pressure must be lowered to accommodate ethanol. This will increase the price of gasoline to the public.

Officials from the **Department of Agriculture** assume their Fuel Quality Program will require one additional Chemist to handle the extra testing of all gasoline samples as well as assisting with enforcement of the requirements. One additional Fuel Device Safety Inspector will be required to assist in enforcement of the requirements. The chemist will use an existing gas chromatography and the inspector will require a pickup truck, camper shell, sample collection

ASSUMPTION (continued)

equipment and oxygenate analyzer. One existing inspector will use an oxygenate analyzer.

The chemist will be responsible for performing the oxygenate tests and contacting all sellers not complying with the requirements. This new requirement will require one additional Fuel Device Safety Inspector to offset the loss in inspection time of the present three inspectors performing fuel quality inspections and sampling. Two inspectors will carry portable oxygenate analyzers and will be used as needed for enforcement purposes. Considerable increase in follow-up inspections is expected. The Fuel Quality Program is currently inspecting 55% of the service stations annually.

Officials from the **Department of Transportation** (MoDOT) noted that this proposed legislation has an effective date of January 1, 2002. Therefore, the impact will begin in FY 2002 for six months.

MoDOT assumes that ethanol has about 30% less BTU energy when compared to gasoline. Therefore, E10 will have slightly less fuel economy, thus increasing the fuel cost per operating mile. They estimate a 350 light fleet will be affected, each operating 15,000 miles per year, with a fuel economy of 25 miles per gallon, and a 2% increase in the number of gallons required per year due to a decrease in the fuel economy per gallon. Current fuel prices in Jefferson City are \$1.22 for gasoline and \$1.23 for E10, a \$0.01 increase in fuel cost per gallon. Therefore, the additional fuel costs for FY2002 is estimated at \$1,103 calculated as (350 vehicles X 15,000 miles / 25 miles per gallon = 210,000 gallons per year X 1.02 to reflect the increase in fuel consumption = 214,200 total gallons consumed per year X \$0.01 per gallon increase = 2,142 estimated fuel cost for FY2001 +.03% annual inflation rate / 2 for 6 months of FY2002). The additional fuel costs for FY2003, FY2004 and FY2005 are \$2,272, \$2,340 and \$2,410 respectively.

Additionally, federal funding will be reduced since the tax on 10% ethanol is 8.5 cents per gallon less than the tax on gasoline. This legislation will result in a loss beginning in October, 2004. This loss is split 80%/20% between the Road Fund and cities and counties, respectively. Therefore, the loss to the Road Fund is \$40,218,000 in FY 2005; \$54,428,000 in FY 2006; and \$55,244,000 in FY 2007. The associated loss to cities and counties is \$10,054,000 in FY 2005; \$13,607,000 in FY 2006; and \$13,811,000 in FY 2007.

**Oversight** has adjusted AGR's Personal Services to reflect a more reasonable starting salary for the positions requested. Additionally, Oversight adjusted Expense and Equipment in reference to travel expenses. Since this proposal is not effective until January 1, 2002, only six months of Personal Services and the related expenses are included as expenses in FY 2002.

#### ASSUMPTION (continued)

The losses to the Road Fund and to cities and counties as represented by MoDOT are beyond the

fiscal impact of this note; therefore, these losses are not reflected in the fiscal impact.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

<u>FISCAL IMPACT - State Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
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**PETROLEUM INSPECTION FUND**

Cost - Department of Agriculture

Personal Services	\$0	(\$28,241)	(\$57,893)
Fringe Benefits	\$0	(\$8,684)	(\$17,802)
Expense and Equipment	<u>\$0</u>	<u>(\$85,689)</u>	<u>(\$36,282)</u>

**Estimated Net Effect on**

<b>PETROLEUM INSPECTION FUND</b>	<b><u>\$0</u></b>	<b><u>(\$122,614)</u></b>	<b><u>(\$111,977)</u></b>
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**ROAD FUND**

Cost - Department of Transportation

Expense and Equipment	<u>\$0</u>	<u>(\$1,103)</u>	<u>(\$2,272)</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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Long-Range Implications

MoDOT noted that RFG is included in the State Implementation Plan (SIP) for the St. Louis Region. This plan is submitted by DNR and approved by EPA as the method by which we will comply with the Clean Air Act standards mandated in the St. Louis ozone nonattainment area. If this bill becomes law, the SIP must be revised to accommodate the differences in VOC emissions between RFG with MTGE. and RFG with ethanol. This may require new/additional Long-Range Implications (continued)

control measures in the St. Louis Region. Failure to stay within the emissions allowed by EPA can jeopardize all/part of federal highway funds to Missouri.

FISCAL IMPACT - Small Business

Oversight assumes those small businesses selling gasoline for motor vehicles in a city of more than 300,000 inhabitants shall comply with the provisions of this proposal. Additionally, small businesses in other cities or countries that choose to adopt this replacement plan or develop their own plan shall comply with the provisions of this proposal. Additionally, MoDOT noted that this proposal may have a minimal per gallon increase in cost of gasoline.

DESCRIPTION

This proposal requires metropolitan areas with more than 300,000 inhabitants to phase in replacement of reformulated gasoline containing methyl tertiary butyl ether (MTBE) with reformulated gasoline containing 10% ethanol. The replacement process will begin on January 1, 2002, and be completed by a date established in rules by the Department of Agriculture. Other counties and municipalities may adopt this replacement plan or develop their own plan.

This legislation is not federally mandated and would not require additional capital improvements or rental space, but would duplicate an existing plan. MoDOT noted that the Missouri State Implementation Plan (SIP) submitted by DNR and approved by the Environmental Protection Agency under the Clean Air Act (CAA) includes provisions for reformulated gasoline (RFG) in the St. Louis non-attainment area.

SOURCES OF INFORMATION

Department of Agriculture  
Department of Natural Resources  
Department of Revenue  
Department of Transportation  
Office of the Secretary of State

**NOT RESPONDING:** City of Kansas City, City of St. Louis; City Administrators of the Cities of: Springfield, St. Joe and St. Charles City; St. Louis Co. - Director of Administration, Jackson County Executive, St. Charles Co. Executive; County Commissioners of the Counties of: Cass, Clay, Greene, Buchanan, Jefferson and Franklin

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A handwritten signature in black ink, appearing to read "Jeanne Jarrett". The signature is written in a cursive style with a large initial "J".

Jeanne Jarrett, CPA  
Director  
February 16, 2000