

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: HB 225 (House Finance Committee Sub)

SHORT TITLE: Dry-Cleaning Solvent Cleanup Act

SPONSOR(S): Representative Weatherly

FISCAL IMPACT

	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 1997-98</u>	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>
REVENUES					
Dry-Cleaning Solvent Cleanup Fund					
(1)Solvent Privilege Tax	\$1,181,304	\$1,491,350	\$1,413,489	\$1,341,077	\$1,273,735
(2)Interest, Gifts, Grants	<u>NA</u>	<u>NA</u>	<u>NA</u>	<u>NA</u>	<u>NA</u>
TOTAL	\$1,181,304	\$1,491,350	\$1,413,489	\$1,341,077	\$1,273,735
EXPENDITURES					
Dry-Cleaning Solvent Cleanup Fund					
Transfer to:					
Department of Revenue	(125,000)	(125,000)	(125,000)	(125,000)	(125,000)
DEHNR & Justice	(211,261)	(273,270)	(257,698)	(243,215)	(229,747)
NET DEPOSIT TO FUND	\$845,043	\$1,093,080	\$1,030,791	\$972,862	\$918,988
POSITIONS:					
Revenue		2	3	3	3
DEHNR		see ASSUMPTIONS AND METHODOLOGY			
Justice		see ASSUMPTIONS AND METHODOLOGY			

PRINCIPAL DEPARTMENT(S) &

PROGRAM(S) AFFECTED: Department of Environment Health and Natural Resources (DEHNR), Environmental Management Commission, Department of Revenue/Sales Tax Division, Commissioner of Insurance, Department of Justice

EFFECTIVE DATE: The sections of the bill establishing the Dry-Cleaning Solvent Cleanup Fund and the powers of the Environmental Management Commission over this fund are effective when the act becomes law. The new dry-cleaning solvent tax is effective October 1, 1997 and is repealed on January 1, 2010. The enforcement procedures and penalties are effective January 1, 1998. The requirement of financial responsibility for dry-cleaning facilities is effective on April 1, 1998. The provisions on certification, land-use restrictions, assessment and remediation agreements, appeals, risk assessment, and

reporting requirements to the Environmental Review Commission begin January 1, 1999. This act is repealed January 1, 2012.

BILL SUMMARY: The bill creates a Dry-Cleaning Solvent Cleanup Fund to reimburse persons who cleanup sites polluted with dry-cleaning solvents. The Fund will be administered by the Department of Environment, Health and Natural Resources (DEHNR). The rules governing the Fund will be developed by the Environmental Management Commission. The source of revenue for the new Dry-Cleaning Solvent Cleanup Fund is a dry-cleaning solvent tax. The solvent tax is a per gallon privilege tax equal to \$5.85 per gallon of chlorine based solvents (perchloroethylene) and 80 cents per gallon of hydrocarbon or petroleum based solvents.

ASSUMPTIONS AND METHODOLOGY:

REVENUE

A privilege tax is imposed on a dry-cleaning solvent retailer for each gallon of dry-cleaning solvent it sells to a dry-cleaning facility. If a dry-cleaning facility purchases the solvent from an out-of-state supplier, an excise tax is imposed on each gallon purchased. The privilege/excise tax is equal to \$5.85 per gallon of chlorine based solvents (perchloroethylene or perc) and 80 cents per gallon of hydrocarbon or petroleum based solvents.

The N. C. Association of Launderers and Cleaners provided information on the gallonage of solvents consumed by cleaners. The Association surveyed 50 plants that use perchloroethylene and 11 plants that use petroleum based products. This sample was used to construct the average number of gallons in the chart below.

Type of Facility	Perchloroethylene Users			Petroleum Users			Total
	Number	Gallons	Tax	Number	Gallons	Tax	
0 to 5 employees	113	250	\$165,263	38	1,750	\$ 53,200	\$ 218,463
6 to 10 employees	138	400	\$322,920	46	2,750	\$ 101,200	\$ 424,120
11+ employees	220	550	\$707,850	72	3,900	\$224,640	\$ 932,490
	471		\$1,196,033	156		\$379,040	\$1,575,073

With an October 1 1997 effective date, the revenue in FY 1997-98 will be 75% of the total shown above or \$1,181,304.

There is a debate between the dry cleaning industry and DEHNR officials concerning the level of solvent use in future years. DEHNR estimates that the use of perc will be reduced 7% each year and the use of oil solvents will be reduced 5% each year. For perc, DEHNR cites an EPA study estimating a 20% reduction in perc use from 1994 to 1996. However, the industry argues that the reductions in the last five years due to tougher environmental laws and to new machinery cannot be sustained in the future. The industry representative for North Carolina estimates solvent use will decline 1% each year for both perc and oil-based solvents.

This fiscal note assumes a 7% reduction in perc use each year and no change in the consumption of oil-based solvents. The Center for Emissions Control reported in Chemical Week magazine (5/4/94) that perc use in dry cleaning dropped 40% from 1986 to 1993. Dr. Joseph DeSimone, Professor of Chemistry and Chemical Engineering at UNC-CH and N. C. State, agrees with DEHNR's estimated 7% annual reduction in perc use. He believes environmental restrictions will force the dry cleaning industry to continue reducing its perc use and eventually find an alternative method of cleaning. With funding from the EPA, the National Science Foundation and eight chemical companies, Dr. DeSimone has developed and will market in 1998 a dry cleaning machine that uses liquid carbon dioxide. This and other technological breakthroughs will continue driving perc use down. As for oil-based solvents, this fiscal note assumes no change in consumption. In fact, a spokesperson for the International Fabricare Institute believes that oil-based solvents may actually increase due to a new product that will soon be on the market that is safer to use.

	<u>1997-98</u>	<u>1998-99</u>	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>
Perc use (gals)	204,450	190,139	176,829	164,451	152,939
Fees	\$1,196,033	\$1,112,310	\$1,034,449	\$962,037	\$894,695
Petrol use (gals)	473,800	473,800	473,800	473,800	473,800
Fees	\$379,040	\$379,040	\$379,040	\$379,040	\$379,040
Total Fees	\$1,575,073	\$1,491,350	\$1,413,489	\$1,341,077	\$1,273,735

EXPENDITURES

The Department of Revenue is allowed to spend up to \$125,000 a year to administer this act. The Department has made a preliminary estimate that it will need \$115,000 to \$120,000 each year to collect the new dry-cleaning solvent tax. It will hire two clerical positions in FY 1997-98 for the Returns Processing and Office Exam sections and in FY 1998-99 it will add an auditor in the Field Operations Unit. This number will be revised downward if it is determined that solvents are sold by a limited number of distributors in the state and not by out of state vendors.

On the other hand, the Department of Environment, Health and Natural Resources (DEHNR) and the Department of Justice will share 20% of the revenue credited to the Dry-Cleaning Solvent Cleanup Fund to administer this program. Based on its experience with the Underground Storage Tank program, DEHNR has requested 10 positions to handle the certifications, inspections, assessments, billing, etc. at an annual cost of \$403,401. The Department of Justice has requested an Attorney III and a Paralegal II at an annual cost of \$108,706 for the preparation of legal agreements concerning site cleanups. After deducting the \$125,000 for the Department of Revenue, DEHNR and Justice will be given only \$211,261 in FY 1997-98 or 41.2% of their requested operating budget for this bill. In the following years, the amount budgeted will decline as revenues into the fund decline, but the administrative workload will remain steady.

SOLVENT CLEANUP FUND

Based on the Revenue and Expenditure data presented above, the Dry-Cleaning Solvent Cleanup Fund will receive \$10.5 million in revenues from the dry-cleaning solvent tax from 1997 to

2010. However, it is not certain whether this amount will be sufficient to cover all cleanup costs. The dry-cleaning industry projects 69 sites will be cleaned up by the Fund at an average cost of \$167,500 per site. Using the industry cost per cleanup, the \$10.5 million in the Fund will cover the cleanup of only 63 of the 69 projected sites. This gap is even larger based on data supplied by DEHNR. DEHNR projects cleanup costs to be \$300,000 per site and expects 120 contaminated sites will be found over the next 10 years. At \$300,000 per site, the Fund will pay for the cleanup of 35 of the 120 sites.

FISCAL RESEARCH DIVISION 733-4910

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