

Department of Legislative Services
 Maryland General Assembly
 2004 Session

FISCAL AND POLICY NOTE

House Bill 1440 (Delegate Oaks)
 Environmental Matters

Environment – Scrap Tire Recycling – Fee Termination

This bill provides for the termination of the tire recycling fee currently imposed by tire dealers on the first sale of a new tire in the State. The bill also repeals the existing prohibition on local governments from establishing their own tire fees.

Fiscal Summary

State Effect: Special fund revenue decrease of \$1.54 million in FY 2005 and \$2.05 million annually thereafter. Special fund expenditures could decrease in FY 2005, and, based on current anticipated spending, would cease altogether in FY 2006. Potential significant general fund expenditure increase beginning in FY 2006. State expenditures (all funds) for tire purchases would decrease by \$0.40 per tire.

(\$ in millions)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
SF Revenue	(\$1.54)	(\$2.05)	(\$2.05)	(\$2.05)	(\$2.05)
GF Expenditure	0	-	-	-	-
SF Expenditure	(-)	(-)	(-)	(-)	(-)
GF/SF/FF Exp.	(-)	(-)	(-)	(-)	(-)
Net Effect	(\$1.54)	(\$2.05)	(\$2.05)	(\$2.05)	(\$2.05)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Local revenues could increase to the extent local jurisdictions establish their own tire fees. Local tire-related projects funded from the existing tire recycling fee would decrease to the extent no other funding sources are provided for such activities. Local expenditures for tire purchases would decrease by \$0.40 per tire.

Small Business Effect: Minimal.

Analysis

Current Law: A tire recycling fee of up to \$0.40 is required to be imposed by a tire dealer on the first sale of a new tire in the State. A tire dealer is allowed to retain 0.6% of the fees it collects. The fees are collected by the Comptroller who forwards all fees, less the cost of administration, to the State Used Tire Cleanup and Recycling Fund (Tire Fund) within the Maryland Department of the Environment (MDE). The fund consists of money made available under loan authorizations, funds appropriated in the State budget, tire recycling fees, or bond and security forfeitures. The fund is limited to a maximum of \$10 million. The Board of Public Works is required to adjust the fees for the next fiscal year if the sum of unallocated funds and the projected fees for the next fiscal year exceeds that amount.

MDE is directed to use the fund as follows: (1) for removal, restoration, emergency, or remedial action in response to the disposal or storage of scrap tires in violation of law; (2) for activities related to scrap tire recycling programs, including research, planning, monitoring, public education, and market development, and for associated administrative costs; and (3) with the approval of the Board of Public Works, to provide financial assistance through and to the Maryland Environmental Service for specified projects, the preparation and implementation of a scrap tire recycling system, and the establishment of a private or public scrap tire collection, processing, or recycling facility.

Background: Chapter 667 of 1989 established the Tire Fund to support activities related to the cleanup of stockpiled scrap tires and for the collection, transportation, recycling, and processing of scrap tires in the State. The fund was originally supported through a tire recycling fee of up to \$1 assessed by a tire dealer on the first sale of each new tire in the State. Chapter 627 of 1997 expanded the allowable uses of the fund and provided that the tire recycling fee terminated on July 1, 2000. The fund was limited to a maximum of \$15 million. If the sum of unallocated funds and the projected fees for the next fiscal year exceeded that amount, the Board of Public Works was required to adjust the fees for the next fiscal year. Despite those limitations, the fund had a substantial balance. According to MDE, the implementation of tire-related projects occurred more slowly than anticipated. In fiscal 1997, the fund balance was adequate enough that \$7 million was transferred to the general fund to support other environmental activities. In fiscal 2000, the beginning fund balance was approximately \$9.5 million, which grew to \$11.4 million at the beginning of fiscal 2001.

In response to concerns about the significant fund balance and the delay in implementing tire-related projects, Chapter 235 of 2000 reduced the tire fee to a maximum of \$0.40 through fiscal 2004, after which the maximum fee returns to \$1. Further, the bill reduced the maximum limit of the fund to \$10 million, clarified the allowable uses of the fund, required MDE to accelerate expenditures from the fund, and repealed the termination provision related to the tire fee. In fiscal 2001, MDE spent \$7.1 million from the fund,

resulting in a fund balance of \$6.2 million at the end of fiscal 2001. The fund balance totaled \$3.1 million at the end of fiscal 2003. The projected fiscal 2004 ending balance is approximately \$1.9 million.

MDE advises that it is aware of 27 major illegal tire stockpiles in the State, each with more than 5,000 tires. Since the inception of the program, over 7.8 million scrap tires have been recovered from stockpile cleanup sites. In fiscal 2003, 62 illegal scrap tire stockpile sites were cleaned up and approximately 279,000 tires were recovered and recycled. A total of 3.2 million scrap tires were processed by Maryland licensed scrap tire facilities in fiscal 2003.

State Fiscal Effect: Approximately 5.5 million new tires are sold annually in the State. The current tire recycling fee of \$0.40 generates approximately \$2.2 million annually. Of that amount, approximately \$2.05 million is deposited in the Tire Fund within MDE, and approximately \$150,000 is retained by the Comptroller to cover administrative costs. By providing for the termination of the fee as of October 1, 2004, special fund revenues would decrease by \$1.54 million in fiscal 2005 and by \$2.05 million annually thereafter. These estimates assume that, in the absence of the bill, the fee would remain at \$0.40 per tire; under current law, the Board of Public Works will, as of July 1, 2004, have the authority to increase the fee to a maximum of \$1 per tire. At a fee of \$1 per tire, gross tire fee collections would total approximately \$5.5 million annually.

The Governor's proposed fiscal 2005 budget includes \$1.73 million in special funds for the scrap tire program within MDE; the budgeted amount reflects about \$700,000 in salaries/fringe benefits for 11 employees, \$825,000 in cleanups/projects, \$150,000 for smaller cleanups and fire suppression activities, and \$55,000 in other operating expenses. The tire fee also supports other budgeted activities within MDE (such as outreach and administrative direction), totaling \$70,000. By eliminating the funding source for the scrap tire program, expenditures for cleanups/projects would presumably cease or be scaled back significantly. While MDE would still be responsible for permitting and enforcement, it is unclear if alternative funds would be made available for these activities. Based on the projected fiscal 2004 ending balance of approximately \$1.9 million and anticipated expenditures from the fund, if no other funding source is provided, the fiscal 2005 ending fund balance would total about \$300,000. Accordingly, for MDE to continue its activities beyond fiscal 2005, the program would need a significant general fund appropriation.

State agencies would no longer be required to pay the \$0.40 tire recycling fee on the purchase of new tires for fleet vehicles. The number of new tires purchased annually by State agencies is unknown.

Additional Information

Prior Introductions: Chapter 627 of 1997, among other things, provided for the termination of the tire recycling fee.

Cross File: None.

Information Source(s): Maryland Department of the Environment, Comptroller's Office, Department of Legislative Services

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