

***Underground Storage Tank Assurance Fund***  
*A.R.S. §49-1051.D*

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The Arizona Department of Environmental Quality (ADEQ) administers the Underground Storage Tank (UST) State Assurance Fund (SAF) through an application process. Based on points for risk to health and the environment, points for financial need and points for the time an applicant has to wait for payment, applications are prioritized for payment. Applicants can apply for reimbursement in phases.

Since the program's inception, 10,844 SAF applications totaling \$434,620,688 have been processed, with an average claim of \$40,091 each. Based on the existing average claim size and anticipated number of future claims, ADEQ projects year-end negative balances of \$90 million in FY 2002 and \$110 million in FY 2003.

***Table 1. State Assurance Fund as of June 30, 2001***

| Type   | No. of Claims | Requested            | Paid or Pending      |
|--|---------------|----------------------|----------------------|
| Paid   | 7,114         | \$213,153,121        | \$157,418,767        |
| Pre-Approved Work/<br>Not Yet Paid           | 1,702         | 133,780,923          | 67,773,225           |
| Denied/Ineligible                            | 345           | 8,863,910            | ----                 |
| Warrants in Process                          | 71            | 1,282,355            | 716,319              |
| Appeals                                      | 161           | 6,613,605            | 3,419,234            |
| Processed or In Process/<br>Awaiting Funding | 1,451         | 70,926,774           | ----                 |
| <b>Totals</b>                                | <b>10,844</b> | <b>\$434,620,688</b> | <b>\$229,327,545</b> |

From the inception of the fund on June 21, 1990 to the end of FY 2001, the excise tax revenue has generated \$259,337,371. Despite the gradual decline in the number of facilities, annual revenue is relatively stable, with the revenue from all sources in FY 2001 totaling \$30,024,370. SAF excise tax revenues for FY 2002 and FY 2003 are expected to be approximately \$29 million annually.

From fiscal years 1992 through 1995, a total of \$19,027,500 was appropriated from the fund and redistributed. In an effort to return these funds to SAF, several appropriations totaling \$6,628,000 have been made from the general fund. In

April 2000, the governor signed legislation (Senate Bill 1301), which became effective July 2000, to appropriate \$5 million to pay claims of school districts, counties, cities, towns, hospitals or small businesses that suffer from financial hardship. A total of 133 claims were paid in FY 2001 with this appropriation.

Although the SAF appears to have a large fund balance, all available funds are encumbered on a monthly basis for preapproved work eligible for payment. The required balance of \$36 million cannot be maintained. As of June 30, 2001, the cash balance was \$28,452,944, of this amount, \$24,161,434 is required for payment of approved work. In addition, most of the remaining balance reflects claims that have been prioritized for payment and are in the final stage of processing. To maintain the required balance in the SAF, additional revenue would have to be received or the department would need to stop making payments until the balance of \$36 million is replenished. If no increase is made to the fund balance through additional appropriations or increased taxes, the fund will continue to be insolvent.

If the department continues to receive applications at the current rate and amount, an increase of excise tax would eliminate the backlog and replenish the fund in the following time frames.

- ◆ Additional \$.01 per gallon excise tax in approximately three years
- ◆ Additional \$.02 per gallon excise tax in approximately one and a half years
- ◆ Additional \$.03 per gallon excise tax in approximately 13 months

The department used the results of the 2000 census to reconfirm that Maricopa County is still the only county that meets the requirements to be included in the Area A account.

In the 2001 legislative session, Senate Bill 1465 enacted that an actuarial study be conducted to analyze the underground storage tank assurance account. The study was completed on Oct. 1, 2001. The department and the UST Policy Commission will evaluate the study results before making a recommendation of possible alternatives to managing the liability of the fund.