Spills Program — January 2015

Funding oil spill prevention, preparedness and response

The Issue

In the wake of the 1988 Nestucca fuel barge spill in Washington and the catastrophic 1989 Exxon Valdez tanker spill in Alaska, the 1991 Washington Legislature created two dedicated accounts to fund the Department of Ecology's oil spill prevention, preparedness, and response activities.

These two accounts are the Oil Spill Prevention Account (OSPA) and Oil Spill Response Account (OSRA). These accounts receive revenue from what is commonly known as the barrel tax. The current barrel tax is five cents per barrel (42 gallons) of oil imported into the state by vessel. Of this, four cents goes into the OSPA and one cent goes into the OSRA. The tax provides a credit on oil exported from the state, and exempts oil imported by pipeline and rail. The major oil refining companies are primary taxpayers.

Over the last decade and even more so over the last three years, there have been significant changes in the mode of crude oil transportation in the State of Washington. While in the past, 90 percent of the crude oil for Washington's refineries came by vessel from Alaska and other sources, there is an increasing shift towards other modes of transportation, including by rail and to pipeline. Crude by rail transportation has increased dramatically in the last three years, reflecting the unprecedented trend across the nation and neighboring Canada. The additional state costs needed to manage prevention, preparedness, and response activities as the energy picture and transportation modes change; e.g., rail and pipelines, is not sustainable with current funding mechanisms.

Proposed Legislation

- Expand the barrel tax to rail and pipelines and increase the Oil Spill Administration Tax from 4 cents to 10 cents.
- Lower the $50,000 threshold to use the OSRA for spill response to $1,000 and expand the usage of the OSRA to hazardous materials responses.

HOW THIS BENEFITS WASHINGTON

Every year, billions of gallons of oil are transported through and transferred over Washington waters.

And since 2012 the dynamic of crude oil transport by rail has begun.

The state Spills program helps ensure the safety of these commercial operations that also pose significant risks to public health and safety, the environment and economy.

Proposed legislation would cover Ecology's oil spill prevention, preparedness, and response activities at the current level as well as cover emerging program activities.

With adequate funding, state leaders can ensure Washington has an effective program to prevent oil spills, and is prepared to mount rapid, aggressive, and well coordinated responses when oil and hazardous material spills occur.

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Funding Oil Spills Program

What the Bill Does

The proposed legislation will help stabilize the revenue source for funding the state's oil spill prevention, preparedness and response program. The legislation proposes the following changes:

- Add oil imported into Washington via large interstate pipelines and rail to the tax base.
- Increase the Oil Spill Administration Tax from 4 cents to 10 cents effective January 1, 2016.
- Give Military Department - Emergency Management Division access to the OSPA to fund development and annual review of local emergency planning committee emergency response plans through June 30, 2019.
- Give Ecology the authority to recover the costs of oil spills from responsible parties expended from the OSPA.
- Lower the response account threshold to respond to spills from $50,000 to $1,000 and expand the usage of the OSRA to hazardous materials responses.

The Results

The proposed legislation would stabilize the revenue source for funding oil spill prevention, preparedness and response activities for Ecology, Department of Fish & Wildlife, and The Military Department's Emergency Management Division. If the legislation is passed, the results would be:

- **Include rail and pipelines in the tax base.** The current tax structure does not apply to oil imported to Washington by rail and pipelines. There has been an unprecedented increase in the transport of crude oil by rail from none in 2011 to 714 million gallons in 2013. The amount may reach 2.87 billion gallons in 2014 or 2015. The amount may increase further with the full build-out of proposed crude by rail facilities and the potential lifting of the federal crude oil export ban. As petroleum shipments from Alaska decline, crude oil transport from the Bakken region and other states via rail is increasing. At the same time, pipeline crude oil transport increased to approximately two billion gallons in 2013 from 777 million gallons in 2003.* The Department of Revenue projects that adding rail and pipelines to the tax base, and increasing the administration tax from 4 to 10 cents generates approximately $13 million in additional revenue for the OSPA in the 2015-17 biennium.
- **The Oil Spill Prevention Account is more stable.** Significant declining revenue and large unpredictable refunds make the account volatile. Including the pipelines and rail in the tax base will provide additional revenue for the state Spills program.
- **The state spills program is less dependent on other state funds.** Over the last 15 years, there have been several transfers from other state accounts to cover previous funding shortfalls. In the past, the Spills program budget (excluding other accounts) was funded approximately 60 percent from the OSPA and 40 percent from Model Toxics Control Act (MTCA) accounts. With the continuing downturn in OSPA revenue, the Spills program budget (excluding other accounts) is now funded approximately 70 percent from MTCA accounts and 30 percent from OSPA.
- **Ecology will be able to access the OSRA** for additional contracted work to complement our rapid oil and hazardous materials spills response activities.

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