

State of Washington  
**Decision Package**

**Agency:** **462 Wa Pollution Liab Insurance Program**

**Decision Package Code/Title:** N0 - Implement a revolving loan program

**Budget Period:** **2015-17**

**Budget Level:** **PL - Performance Level**

**Recommendation Summary Text:**

PLIA proposes the establishment of a revolving loan program to assist owners and operators of petroleum underground storage tank systems remediate past releases; upgrade, replace, or remove petroleum underground storage tank systems to prevent future releases; and install new infrastructure or retrofit existing infrastructure for the dispensing of renewable or alternative energy.

**Fiscal Detail**

| <b>Revenue From Principle</b>                                    | <b><u>FY 2016</u></b> | <b><u>FY 2017</u></b> | <b><u>Total</u></b> |
|--|-----------------------|-----------------------|---------------------|
| (New) Underground Storage Tank Revolving Loan<br>Account - State | \$45,600              | \$124,632             | \$170,232           |
| <b>Total Principle Revenue</b>                                   | <b>\$45,600</b>       | <b>\$124,632</b>      | <b>\$170,232</b>    |
| <b>Revenue From Interest</b>                                     | <b><u>FY 2016</u></b> | <b><u>FY 2017</u></b> | <b><u>Total</u></b> |
| (New) Underground Storage Tank Revolving Loan<br>Account - State | \$151,666             | \$232,100             | \$383,766           |
| <b>Total Interest Revenue</b>                                    | <b>\$151,666</b>      | <b>\$232,100</b>      | <b>\$383,766</b>    |
| <b>Operating Expenditures</b>                                    | <b><u>FY 2016</u></b> | <b><u>FY 2017</u></b> | <b><u>Total</u></b> |
| (New) Underground Storage Tank Revolving Loan<br>Account - State | \$569,938             | \$501,438             | \$1,071,376         |
| <b>Total Cost</b>  | <b>\$569,938</b>      | <b>\$501,438</b>      | <b>\$1,071,376</b>  |

**Package Description:**

**Background:**

A significant portion of Washington's underground storage tanks and their infrastructures are more than 30 years old. Owners and operators will soon face the challenge of their tanks becoming more difficult and costlier to insure. PLIA was established to create and maintain an accessible and affordable insurance market for underground storage tank owners and operators. More than 80% of Washington's underground storage tank owners and operators comply with federally mandated financial assurance requirement through the PLIA reinsurance program. Owners and operators who are not able to demonstrate financial assurance are in violation of federal and state law.

**Current situation:**

Owners and operators of underground storage tanks often lack the financial resources to upgrade or replace their aging systems. Many of the aging systems are located on sites with historical contamination and lending institutions are reluctant to provide loans for upgrades or cleanup when contamination is present.

Proposed solution:

PLIA proposes the establishment of a revolving loan program. The availability of loans will expedite upgrades of underground storage tanks and systems, cleanup of historical and on-going contamination, and retrofitting fueling infrastructure to disperse renewable or alternative energy.

## **Narrative Justification and Impact Statement**

*What specific performance outcomes does the agency expect?*

A minimum of ten loans will be approved during the biennium, approximately five each fiscal year. We anticipate a maximum of two years from contract signing to site closure.

## **Performance Measure Detail**

**Activity:**

**Incremental Changes**

Number of loans approved

5/year

*Is this decision package essential to implement a strategy identified in the agency's strategic plan?*

Yes. A low-interest revolving loan program will allow owners and operators of underground storage tanks to upgrade aging equipment, clean up existing contamination, and provide alternative fuel choices to their customers. Underground storage tank owners and operators will be motivated to cleanup their contaminated sites. The agency will provide direct oversight of cleanup projects to obtain closure within two years from the date the loan contract is signed.

*Reason for change.*

Owners and operators of leaking underground storage tanks who cannot afford to upgrade their system or clean up contamination are often unable to obtain insurance coverage for their sites. Financial institutions are reluctant to provide loans for upgrading underground storage tank systems due to the presence of contamination. Property values are diminished and the owners/operators cannot provide needed vehicle fueling services to their communities. An owner's or operator's access to financial assistance through a low-cost loan program will support and contribute to the environmental and economic strength of Washington State by preventing future environmental damage and risk to the public, making renewable and/or alternative energy more accessible, and increasing and restoring property values.

Owners and operators of aging tanks will be able to replace their tanks and obtain coverage at a lower premium through the agency's reinsurance program. According to an insurance industry representative, replacing insured tanks that are more than 35 years old (approximately 34% of the state's tank population) will significantly reduce an owner or operator's insurance premium. For example, an owner or operator of a typical site with three tanks would realize an estimated annual premium reduction from \$1,700 to \$700. Replacing a 45 year-old tank (6% of the state's tank population) reduces an owner or operator's insurance premium from \$2,250 to \$550 per tank.

*Does this decision package provide essential support to one or more of the Governor's Results Washington priorities?*

Yes. This revolving loan program supports the following Results Washington Goals:

- Goal 2 for a Prosperous Economy - will allow underground storage tank owners and operators to re-establish fueling services, and employment opportunities will be available for contractors to perform the cleanups and/or upgrades
- Goal 3 for Sustainable Energy and a Clean Environment - remediation actions will be completed on contaminated sites with the availability of new alternate fueling options (charging stations for electric vehicles)
- Goal 4 for Healthy and Safe Communities - groundwater impacts at contaminated sites will be identified and addressed; increased potential for fewer air emissions
- Goal 5 for Efficient, Effective and Accountable Government - cleanups will be performed expeditiously with close oversight by the agency to ensure the appropriate use of state funds and enhance communities statewide

***What are the other important connections or impacts related to this proposal?***

The revolving loan program will assist underground storage tank owners and operators to clean up their contaminated sites, and provide citizen's with additional alternate fuel sources. Currently state agencies contribute to the cleanup of an average of 100 leaking underground storage tank sites per year. The proposed loan program will increase the number of cleanups by a minimum of 5% a year. This proposal has the support of the Departments of Transportation, Commerce, Ecology, and Enterprise Services, the United State Environmental Protection Agency, the Washington Oil Marketers Association, the Western States Petroleum Association, providers of underground storage tank insurance, Puget Sound Energy, Greenroads, and the Washington Environmental Council. Implementing the loan program maintains the integrity of the trust fund and ensures that revenues from the Petroleum Products Tax (PPT) are focused on the strategic goals of the agency.

***What alternatives were explored by the agency, and why was this alternative chosen?***

Two alternatives were considered. The first alternative, maintaining the status quo, leaves owners and operators of aging tanks with significant challenges of obtaining affordable insurance, and diminished property values resulting from contamination remaining on sites. Financial institutions are reluctant to lend owners or operators needed funds to upgrade or cleanup their sites. For sites without contamination but are in need of systems upgrades or replacements, the cost to complete an upgrade could run in excess of \$250,000, which many owners and operators cannot afford.

The second alternative, providing low-interest loans to these site owners and operators to cleanup contamination and/or upgrade their systems would be very beneficial. This alternative offers an opportunity to enhance or re-establish fueling operations and restore property values while improving communities on many levels. For sites where contamination will be cleaned up, electric power enhancements could be installed for vehicle charging stations during the excavation phase of the projects, causing less disruption to business operations.

***What are the consequences of not adopting this package?***

Insurance premiums for underground storage tanks are based on a rating system applied to each site. The primary drivers in the rating and pricing of premiums for each site include the age of tanks, the type of tanks, and the option to purchase retroactive coverage. Writers of pollution liability insurance coverage in Washington have stated that coverage will be increasingly difficult to provide based upon the age and risk these tanks represent. At least one of the state-reinsured insurance providers is already denying coverage for tanks installed prior to 1980. The presence of historical or on-going contamination can significantly increase the difficulty of obtaining insurance, resulting in leaving properties unremediated with diminished values, and a failure to meet federally mandated financial assurance requirements.

***What is the relationship, if any, to the state's capital budget?***

None.

***What changes would be required to existing statutes, rules, or contracts in order to implement the change?***

PLIA currently has no legal authority under Chapter 70.148 RCW to offer this loan program to business owners. Legislative approval is being sought during the 2015 session.

***Expenditure and revenue calculations and assumptions***

**Revenue Calculations and Assumptions:**

Interest earned from the loans will be dependent on the amount of each loan, and will increase incrementally as new loans are approved in ensuing biennia. The agency's estimate for revenue received from interest is \$151,666 in FY16 and \$232,100 in FY17, for a biennial total of approximately \$383,766. Revenue received from loan repayments will also increase in each ensuing year. The agency estimates receipts for principle repayments of \$45,600 for FY16 and \$124,632 for FY17, for a total of \$170,232 for the 15-17 biennium.

### Expenditure Calculations and Assumptions:

- Three new positions to oversee and provide support to cleanup projects under the program statewide
- Additional administrative and technology funding associated with the three new positions
- Additional office space will be needed effective July 1, 2015
- Public outreach will be needed to involve local community members at approved loan sites throughout the state
- Rule-making review assistance will be needed from the Attorney General's Office
- Travel expenditures will be significant to visit loan sites
- Contract with a third party financial institution to process loan approvals and payments on behalf of the agency

Three new positions will be needed to support this program: a senior-level hydrogeologist, a project manager, and an administrative support employee. The two senior-level professionals will be providing direct oversight of the project consultants and contractors performing the work.

New computers, software, and installation for three new employees = \$10,100 (based on pricing information on CTS' website - July 2014)

The agency's leased space for 6.6 employees is approximately 1,200 square feet. With the addition of three new FTEs, we estimate the total amount of space needed to accommodate the agency will be 2,088 SF (based on the Modified Pre-Design Form). PLIA's existing lease rate is \$30/SF. We assume the lease rate per square foot will remain the same and our lease obligation would increase to \$5,220 per month - a 74% increase. On-going costs for additional 888 SF would be \$2,220 per month - or \$53,280 for the biennium (\$125,280 total lease obligation). A one-time cost of \$58,400 is estimated for construction, updated wiring, furniture moves, etc. Total biennial cost for leased space within Ecology would be \$183,680.

Public outreach efforts to promote the program: estimate \$400 per public meeting space rental, posters and other informational items used during public meetings, advertising in local newspapers and websites, purchase of mailing lists, mass mailings to citizens in the vicinity of approved loan sites = \$85,000.

Travel costs to visit loan recipient sites at various stages of the project include per diem and lodging for sites requiring overnight stays, motor pool usage = \$56,340 (sources: OFM, GSA, and DES guidelines).

### Summary of costs:

|                        |                    |
|------------------------|--------------------|
| Salaries/benefits      | \$532,762          |
| Goods/services         | 275,494            |
| New computers/software | 10,100             |
| Increased lease/space  | 111,680            |
| Public outreach        | 85,000             |
| Travel                 | 56,340             |
| <b>Total cost =</b>    | <b>\$1,071,376</b> |

### *Which costs, savings, and functions are one-time? Which are on-going? What are the budget impacts in future biennia?*

One-time costs include the purchase of computer equipment/software and costs associated with an office relocation within the building or modification of our current location. New on-going costs would include the salaries and benefits for additional staff, increase in goods and services, anticipated lease rate increase, public outreach efforts in communities where new loan sites are located, and increased travel expenses.

| <b><u>Object of Expenditure</u></b> |                    | <b><u>FY 2016</u></b> | <b><u>FY 2017</u></b> | <b><u>Total</u></b> |
|-------------------------------------|--------------------|-----------------------|-----------------------|---------------------|
| A                                   | Salaries and Wages | \$190,272             | \$190,272             | \$380,544           |
| B                                   | Employee Benefits  | 76,109                | 76,109                | 152,218             |
| E                                   | Goods And Services | 265,287               | 206,887               | 472,174             |
| G                                   | Travel             | 28,170                | 28,170                | 56,340              |
| J                                   | Capital Outlays    | <u>10,100</u>         | <u>0</u>              | <u>10,100</u>       |
|                                     |                    | \$569,938             | \$501,438             | \$1,071,376         |
| <b><u>FTEs</u></b>                  |                    | 3.0                   | 3.0                   | 6.0                 |

State of Washington  
Decision Package

**Agency:** 462 Wa Pollution Liab Insurance Program

**Decision Package Code/Title:** N1 - Website redesign

**Budget Period:** 2015-17

**Budget Level:** PL - Performance Level

**Recommendation Summary Text:**

PLIA's website needs to be redesigned for improved ease in use and clarity of information.

**Fiscal Detail**

| <b>Operating Expenditures</b>                             | <b><u>FY 2016</u></b> | <b><u>FY 2017</u></b> | <b><u>Total</u></b> |
|---|-----------------------|-----------------------|---------------------|
| 544-1 Pollution Liab Insurance Prog Trust-State           | 20,000                | 0                     | 20,000              |
| 545-6 Heat Oil Pollution Liability Trust-Non-Appropriated | 20,000                | 0                     | 20,000              |
| <b>Total Cost</b>   | <b>40,000</b>         | <b>0</b>              | <b>40,000</b>       |

**Package Description:**

**Background:**

Our website does not follow a similar format adopted by most state agencies in recent years, and is in need of being rewritten using Plain Talk principles. An initial consultation with CTS (then DIS) occurred several years ago, though no subsequent action has been pursued by the agency due to conflicting priorities.

**Current situation:**

PLIA does not have a qualified IT person available to perform the redesign of our website. The agency will request assistance from Consolidated Technology Services (CTS) to contract with a vendor via a competitive process.

**Proposed solution:**

Contract the professional redesign of the agency's website for ease in use and to be more consistent with other state agency formats.

**Narrative Justification and Impact Statement**

*What specific performance outcomes does the agency expect?*

The agency's website is outdated and tedious to navigate through when looking for specific program information. By standardizing the website format, simplifying the language used, shortening page lengths, etc., we expect our customers will be able to find what they need quickly, potentially reducing the number of phone calls to our office for clarifying information.

**Performance Measure Detail**

**Activity:**

**Incremental Changes**

No measures submitted for package

***Is this decision package essential to implement a strategy identified in the agency's strategic plan?***

Yes - PLIA's goal of motivating tank owners to choose cleanup. The agency recently reactivated the long-dormant Heating Oil Technical Assistance Program and plans to submit agency-request legislation in the 2015 session to implement a revolving loan program to assist owners and operators of underground storage tanks in cleaning up contamination and/or upgrade their fueling systems. The agency expects these programs to generate a lot of interest and wants to provide relevant information on our website that is clear and easily accessible.

***Reason for change.***

PLIA expects an increased interest for information about agency programs and an updated website design would make it easier and faster for customers to access our information anytime.

***Does this decision package provide essential support to one or more of the Governor's Results Washington priorities?***

Yes. This project supports the Governor's Results Washington Goal 5 for Efficient, Effective and Accountable Government.

***What are the other important connections or impacts related to this proposal?***

None.

***What alternatives were explored by the agency, and why was this alternative chosen?***

The available alternative is to remain with the current website format, which is outdated and difficult to navigate through.

***What are the consequences of not adopting this package?***

None, though we anticipate a significant increase of phone calls to inquire about agency programs.

***What is the relationship, if any, to the state's capital budget?***

None.

***What changes would be required to existing statutes, rules, or contracts in order to implement the change?***

None.

***Expenditure and revenue calculations and assumptions***

**Revenue Calculations and Assumptions:**

None.

**Expenditure Calculations and Assumptions:**

A competitive process will needed to contract these services. Project cost estimate based on a similar solicitation posted in the Washington's Electronic Business Solution (WEBS).

FY2016:

Contracted web design services \$40,000

Expenditures for FY2016: \$40,000

FY2017: none.

Assumptions:

The web design will be done in the first fiscal year and is anticipated to take up to six months to complete.

Summary of costs:

|                                |                 |
|--------------------------------|-----------------|
| Contracted web design services | \$40,000        |
| <b>Total cost =</b>            | <b>\$40,000</b> |

*Which costs, savings, and functions are one-time? Which are on-going? What are the budget impacts in future biennia?*

The only one-time cost would be for the contracted design services. No additional on-going costs are anticipated.

| <u>Object of Expenditure</u> | <u>FY 2016</u> | <u>FY 2017</u> | <u>Total</u> |
|------------------------------|----------------|----------------|--------------|
| E Goods and Services         | 40,000         | 0              | 40,000       |

State of Washington  
**Decision Package**

**Agency:** **462 Wa Pollution Liab Insurance Program**

**Decision Package Code/Title:** N2 - Actuarial study on insurance rates

**Budget Period:** **2015-17**

**Budget Level:** **PL - Performance Level**

**Recommendation Summary Text:**

PLIA would like to have an actuarial study performed to review the existing rate structures and coverages of the three insurers currently being reinsured by the agency.

**Fiscal Detail**

| <b>Operating Expenditures</b>                   | <b><u>FY 2016</u></b> | <b><u>FY 2017</u></b> | <b><u>Total</u></b> |
|---|-----------------------|-----------------------|---------------------|
| 544-1 Pollution Liab Insurance Prog Trust-State | 0                     | 97,000                | 97,000              |
| <b>Total Cost</b>                               | <b>0</b>              | <b>97,000</b>         | <b>97,000</b>       |

**Package Description:**

**Background:**

The agency had an actuarial study done in 1994 to review the existing rate structures and coverage of the two insurers that were reinsured by PLIA at the time, and a feasibility study was conducted on aboveground petroleum storage tanks to determine the impact of adding those tanks to the agency's pollution liability insurance program.

**Current situation:**

Many changes have occurred in the 20 years since the last study was done, and the agency now has reinsurance treaties (contracts) with three insurance companies. While the market is more competitive than in 1994, the risk for failure due to the age of the tank population is much greater. Tank age is a major factor affecting premiums to the owners and operators of petroleum storage tanks. Current estimates indicate 87% of the tank population in Washington is more than 20 years old.

**Proposed solution:**

Contract the professional services of an actuarial firm to conduct a study similar to 1994's, based on current information.

**Narrative Justification and Impact Statement**

***What specific performance outcomes does the agency expect?***

Receipt of a professional evaluation of the existing rate structure and coverages provided by the three insurers reinsured by PLIA. This information will be considered when renegotiating existing treaties in the agency's attempts to increase savings and coverage for users.

**Performance Measure Detail**

**Activity:**

**Incremental Changes**

No measures submitted for package

***Is this decision package essential to implement a strategy identified in the agency's strategic plan?***

Yes - PLIA's goal of contributing to a prosperous and sustainable economy by ensuring petroleum storage tank owners and operators have access to available and affordable financial responsibility resources.

***Reason for change.***

PLIA's reinsurance services are often the only affordable method tank owners have access to in order to demonstrate federally mandated financial responsibility. Financial responsibility includes taking corrective action and compensating third parties for bodily injury and property damage caused by accidental releases arising from the operation of the tank(s). A study to review the existing rate structures and coverages should determine: if insureds are paying appropriate premiums which reflect the risk, if the reinsurance levels are appropriate, if current reserves are adequate, and if cash reserves are sufficient.

***Does this decision package provide essential support to one or more of the Governor's Results Washington priorities?***

Yes. This project supports the Governor's Results Washington Goal 5 for Efficient, Effective and Accountable Government.

***What are the other important connections or impacts related to this proposal?***

This study will provide critical private sector data and statistics to be used in negotiation of insurance treaties and insurance policies that apply to owners statewide.

***What alternatives were explored by the agency, and why was this alternative chosen?***

No other alternative was considered.

***What are the consequences of not adopting this package?***

Potentially higher premiums for the insureds and/or inadequate trust fund reserve levels.

***What is the relationship, if any, to the state's capital budget?***

None.

***What changes would be required to existing statutes, rules, or contracts in order to implement the change?***

None.

***Expenditure and revenue calculations and assumptions***

**Revenue Calculations and Assumptions:**

None.

**Expenditure Calculations and Assumptions:**

A competitive process will be needed to contract these services. Project cost estimate is based on the \$40,000 amount for 1994's study for two insurers. Assuming a rate of \$20,000 per insurer, the cost in 1994 would have been \$60,000. This amount converted to 2014 dollars is approximately \$97,000 (source: US Department of Labor's Bureau of Labor Statistics).

FY2016:

None.

FY2017:

Contracted services should be completed in FY17 - total expenditures \$97,000.

Assumptions:

The actuarial study is anticipated to take up to 20 months to complete with payment due within 30 days of receipt (FY17).

Summary of costs:

|                               |                 |
|-------------------------------|-----------------|
| Contracted actuarial services | \$97,000        |
| <b>Total cost =</b>           | <b>\$97,000</b> |

*Which costs, savings, and functions are one-time? Which are on-going? What are the budget impacts in future biennia?*

The only one-time cost would be for payment in full upon completion of the contracted actuarial services. No additional on-going costs are anticipated.

| <u>Object of Expenditure</u> | <u>FY 2016</u> | <u>FY 2017</u> | <u>Total</u> |
|------------------------------|----------------|----------------|--------------|
| E Goods and Services         | 0              | 97,000         | 97,000       |