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KENTUCKY PETROLEUM MARKETERS ASSOCIATION

Industry Update

Interim Joint Committee on Transportation

September 30, 2019

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Our Industry in Kentucky

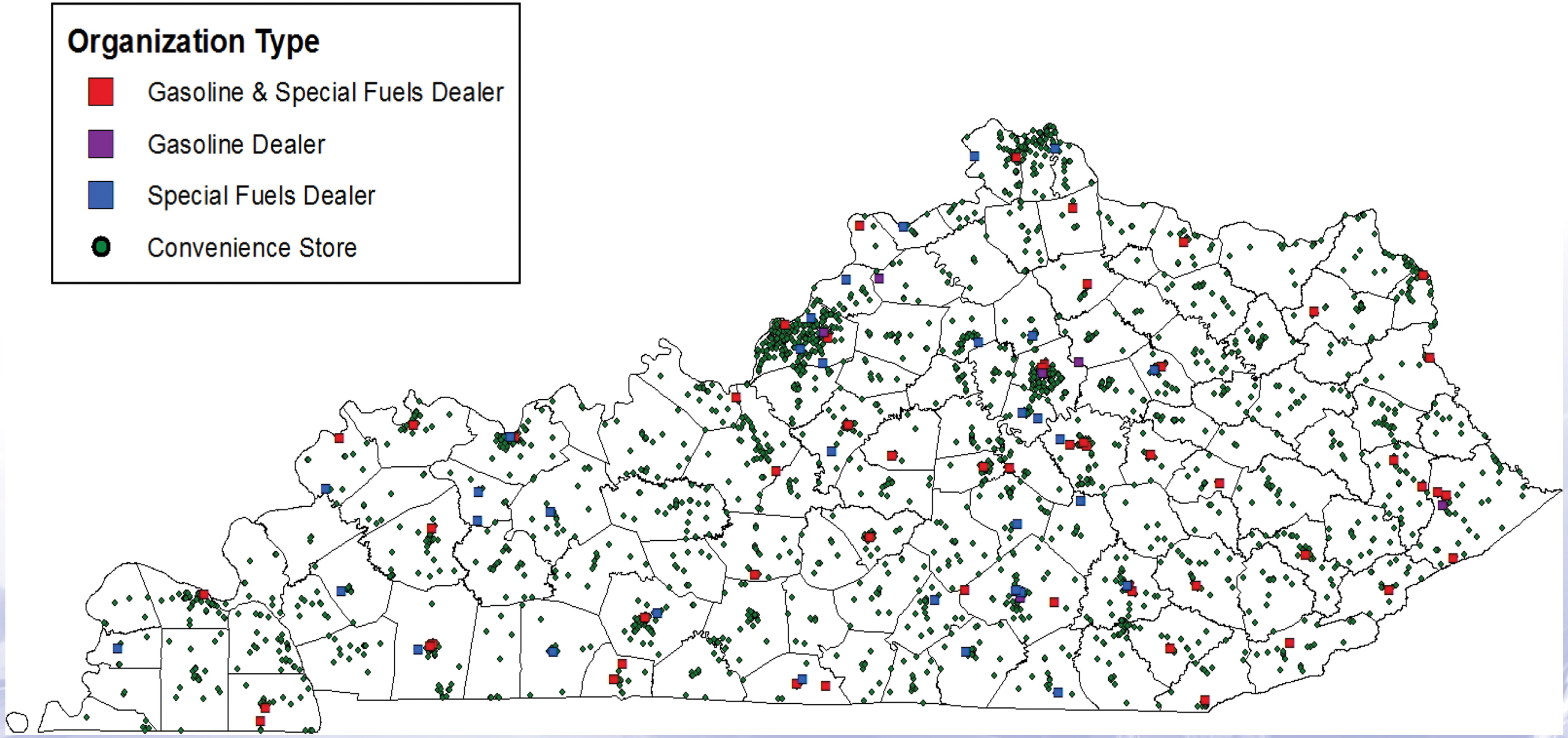
- Industry impact
- Industry developments
- Critical Issues & Legislative Request
  - PSTEAF
  - Evaporation and Collection Allowance

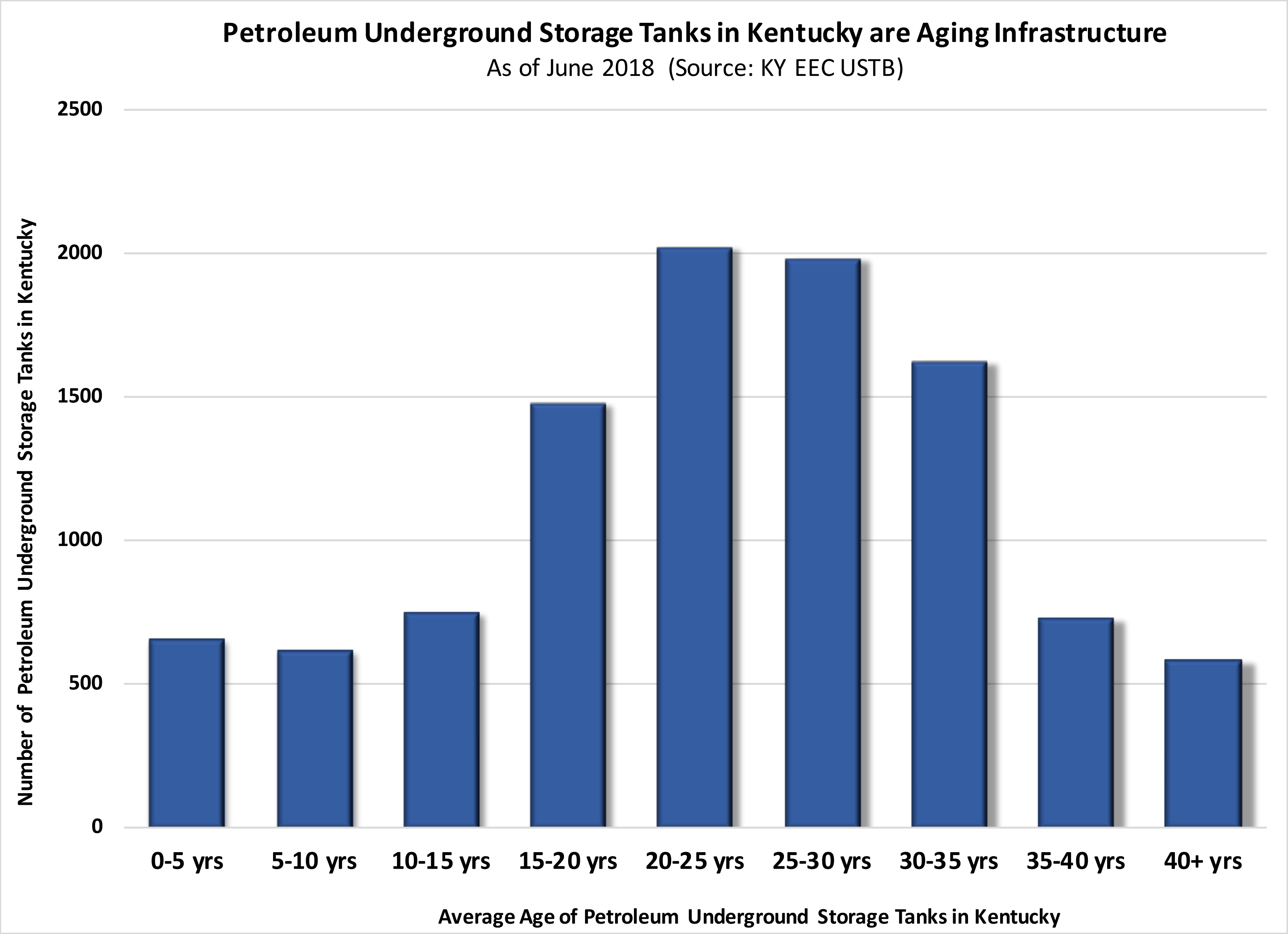
Petroleum Underground Storage Tank Fund (PSTEAF)

KENTUCKY PETROLEUM MARKETERS ASSOCIATION

- Petroleum underground storage tanks (USTs) exist in every county and every legislative district in Kentucky.
- Kentucky has approximately 10,400 active USTs in the ground. 80% of these active tanks are more than 15 years old.
- Because all tanks age and some will fail, there will always be a need for the PSTEAF program to assure remediation of petroleum UST leaks.
- Without PSTEAF, employers across the KY would be at risk, resulting in revenue loss for the Commonwealth from the taxes these businesses pay and collect.
- Without PSTEAF, KY's communities would suffer harmful environmental impacts and the state, counties and municipalities could face crippling financial liability.
- The essential need for PSTEAF has not changed since its inception in 1990 and should continue for the foreseeable future without alteration, except to extend or even remove the deadline dates.

Where are our underground storage tanks in Kentucky?




Petroleum Underground Storage Tanks in Kentucky are Aging Infrastructure
As of June 2018 (Source: KY EEC USTB)
Number of Petroleum Underground Storage Tanks in Kentucky
2500
2000
1500
1000
500
0
0-5 yrs
5-10 yrs
10-15 yrs
15-20 yrs
20-25 yrs
25-30 yrs
30-35 yrs
35-40 yrs
40+ yrs
Average Age of Petroleum Underground Storage Tanks in Kentucky

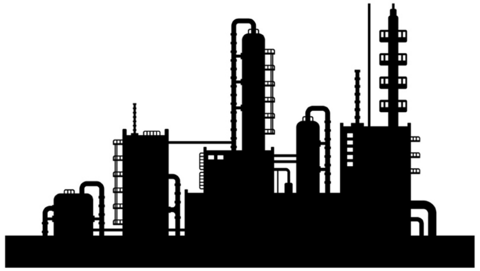
Evaporation & Collection Allowance

- Kentucky fuel marketers are required by state law to remit the motor fuels tax (gas tax) based upon the volume of fuel purchased from the supplier.
- Marketers must then assume the cost, and the risk, of attempting to recoup the tax from the consumer when the fuel is sold at retail (KRS 138.220 and KRS 138.240).
- A 2.25% allowance, set forth in KRS 138.270(1)(b), exists to cover the difference in the amount of fuel taxes remitted to the state by marketers and the amount they may ultimately recover from consumers. This difference arises from the natural evaporation, shrinkage, unaccountable losses, collection costs, and handling and reporting of the gas tax.
- Adjustments to the motor fuels tax have direct impacts on marketers. As the gas tax increases, costs to marketers increase (collection, surety expense, etc.).
- This allowance is necessary and good for taxpayers as a whole.

Understanding KY's Collection and Evaporation Allowance

The 2.25% Collection and Evaporation Allowance is a line item deduction that offsets the portion of the motor fuels tax Kentucky marketers are obligated to pay but ***are not able to collect*** from the consumer, as well as specific costs incurred performing the tax collection function.

refiner / terminal



Refiners supply motor fuels at the terminal.

The entire motor fuels tax is assessed by the state to the marketer at the point of purchase when the refiner sells the fuel to the marketer.

state

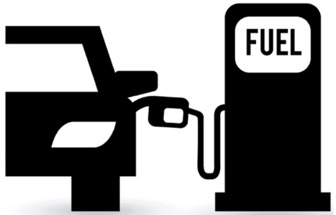
marketer

Marketers purchase motor fuels at the terminal and pay the entire tax to the state based on these purchases.

Marketers are financially and statutorily obligated to the state for the full amount of motor fuels tax when they purchase fuel at the terminal. Marketers remit the tax to the state on the 25th of each month. The 2.25% allowance is deducted from this payment. The state is made whole on the motor fuels tax at this point. The state does not issue any payment to the marketer. It is a deduction to offset overpayment resulting from the factors listed below. The state requires marketers to purchase and provide three month's surety to secure this tax obligation.

Marketers transport the product to individual retailers. A percentage of the product is lost through evaporation and transport due to the physical properties of gasoline.

retailer



Consumers (users) pay the motor fuels tax on the fuel they purchase at retail.

Even though the consumer (user) pays the motor fuels tax at the current rate, the marketer does not recoup all the tax they have incurred.

Kentucky marketers are unable to recoup 100% of the amount of the tax they pay to the state on motor fuels to be sold to the consumer at the pump.

The collection and evaporation allowance exists in KY statute to offset unrecoverable costs impacting the marketer's ability to recover the tax paid, such as:

evaporation & shrinkage - product evaporation, temperature, meter miscalibration, transfer of liquid product; this is permanent loss factor.
handling & reporting - office and personnel costs, software and hardware expenses, data service fees, surety expense.
collection costs - costs incurred while actually collecting the tax; up to 4% of the tax may be lost to credit card fees.
unaccountable losses - unrecoverable costs due to theft, drive offs, and associated expenses with items such as insufficient funds and fraudulent charges by consumers.

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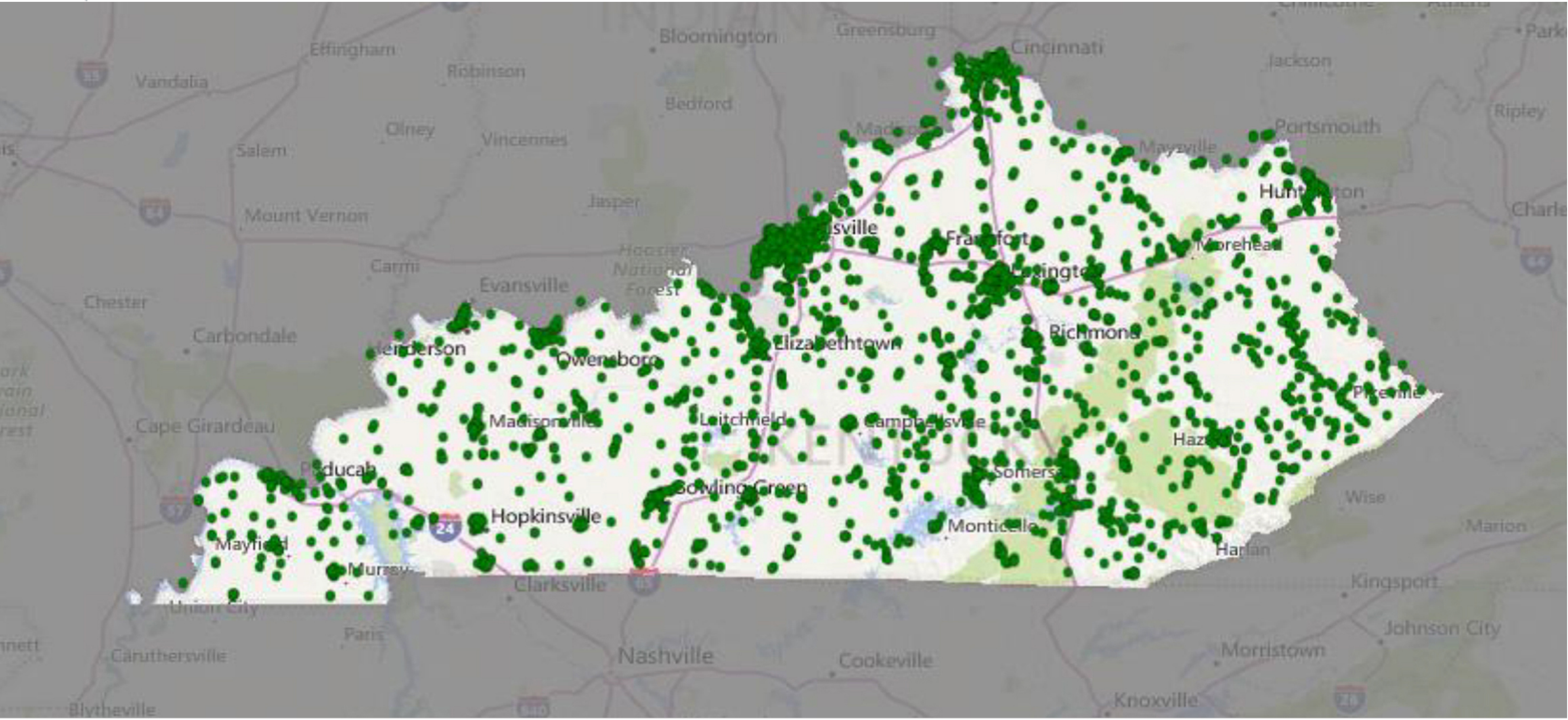
Fuel Marketers and Retailers in Kentucky



Source: NACS State of the Industry Report of 2018 Data; Nielsen TDLinx Store Count (December 31, 2018)

Thank you

Questions?