

**Department of Fiscal Services**  
Maryland General Assembly

**FISCAL NOTE**  
**Revised**

House Bill 551 (Chairman, Appropriations Committee and Delegate Hubbard)  
(Departmental - Environment)

Appropriations

Referred to Budget and Taxation

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**Maryland Water Quality Revolving Loan Fund and Maryland Drinking Water  
Revolving Loan Fund**

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This enrolled departmental bill allows the Maryland Department of the Environment (MDE) to use the Maryland Drinking Water Revolving Loan Fund for improvements to privately owned water systems, as allowed in the federal Safe Drinking Water Act. Further, the bill allows MDE to use the Maryland Water Quality Revolving Loan Fund for improvements to wastewater facilities. MDE may transfer funds between the two loan funds. Private borrowers from these funds must provide adequate security for the repayment of the loan; provisions are made for recovery of funds in the case of loan defaults. The Drinking Water Loan Fund may be used for loan subsidies for disadvantaged communities.

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**Fiscal Summary**

**State Effect:** Potential indeterminate decrease in State revenues; any increased expenditures could be handled by existing budgeted resources.

**Local Effect:** Potential indeterminate decrease in local revenues with a commensurate decrease in local expenditures.

**Small Business Effect:** The Department of the Environment has determined that this bill has a meaningful impact on small businesses (attached). Fiscal Services concurs with this assessment as discussed below. (The attached assessment does not reflect amendments to the bill.)

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## **Fiscal Analysis**

**Background:** MDE is currently in the process of applying for a \$17.6 million capitalization grant from the Environmental Protection Agency (EPA) to initiate the Drinking Water Revolving Loan Fund, which is anticipated to be making water system loans by July 1997. Under this bill, recent flexibility provided through the federal Safe Drinking Water Act Amendments of 1996 to allow for loans to private sector water providers would be incorporated in State law.

**State Effect:** The fiscal 1998 budget assumes \$40 million will be available to be distributed as loans through the Maryland Drinking Water Revolving Loan Fund. The actual amount available depends upon the bonding leverage available through the fund. The \$40 million projection for the drinking water systems is based on a 2:1 leverage ratio given a \$17.6 million federal grant and \$3.5 million in State matching funds. Loans will presumably be made at or below market rates, with any differential between loan rates and market rates being paid for through the fund. The fiscal 1998 budget assumes \$33.6 million will be distributed as loans through the Maryland Water Quality Revolving Loan Fund, though MDE advises that significantly more could be made available through the current bond leveraging ratio (up to \$226 million).

There are currently 266 privately owned drinking water systems and 233 privately owned wastewater systems. In addition, there are approximately 189 nonprofit drinking water systems that could potentially qualify for funds under this bill. Extending loans to private sector entities could affect the leveraging of funds through bonds; this would depend upon the credit-worthiness of the loans provided, and how many private sector entities would apply which may necessitate taxable bonds. Taxable bond issuances require approval by the Board of Public Works (BPW). In addition, loan repayment revenues could decrease to the extent that private sector water providers are more likely to default than local jurisdictions. However, provisions are included in the bill regarding borrower's security and fund recovery.

MDE advises that the fiscal 1998 budget includes \$1.6 million to pay the costs of the drinking water initiative. Most of these expenditures are associated with the costs of implementing the federal Safe Drinking Water Act and are not associated with the requirements of this legislation. While some costs may be incurred due to the bill's provisions, primarily to process and administer loans to private sector entities, any such costs could be handled given the additional personnel already proposed in the fiscal 1998 budget.

The bill provides that funds may be transferred between the Maryland Water Quality Revolving Loan Fund and the Maryland Drinking Water Revolving Loan Fund in accordance with provisions in the Safe Drinking Water Act. This means that MDE may transfer up to

1/3 of the federal capitalization grant (\$17.6 million). In the bill, up to 30% of the annual federal capitalization grant may be used for loan subsidies for disadvantaged communities, as provided under the federal Act.

**Local Effect:** Allowing private sector entities to receive loans for drinking water and waste water improvements could potentially affect the amount of funds available for these activities for local governments. Should program funds be sufficient to cover both private sector and local government demand for the program, then local governments would not be directly affected. However, should demand for loans exceed availability of funds, then local governments may not receive loans that otherwise might have been received. It is assumed that in most such cases, expenditures for improvements may be held off until funding became available. In the case of wastewater systems, if MDE responds to higher demand through leveraging additional bonds, then funds should be sufficient to address local needs.

MDE is currently drafting criteria specifying funding priority. This draft criteria must undergo a public hearing process before completed, but is expected to include components such as project affordability, the readiness of the project, and compliance issues.

**Small Business Effect:** There are currently 266 privately owned drinking water systems and 233 privately owned wastewater systems. In addition, there are approximately 189 nonprofit drinking water systems that could potentially qualify for funds under this bill. It is not known at this time how many of these water system providers would qualify as small businesses.

The amount of funds currently budgeted for fiscal 1998 for loans is \$33.6 million through the Maryland Water Quality Revolving Loan Fund and \$40 million through the Maryland Drinking Water Revolving Loan Fund. As noted above, these numbers would depend upon the bonding leverage available through the fund; the \$40 million for the drinking water systems is based on a 2:1 leverage ratio. This would be affected by the credit-worthiness of the loans provided, and how many private sector entities would apply necessitating taxable bonds.

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**Information Source(s):** Maryland Department of the Environment, Department of Fiscal Services

**Fiscal Note History:** First Reader - February 12, 1997  
mld Revised - House Third Reader - March 24, 1997  
Revised - Enrolled Bill - April 9, 1997

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