HB 306

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

House Bill 306 (Delegate Hubbard)
Appropriations

Maryland Water Quality Revolving Loan Fund and Maryland Drinking Water Revolving Loan Fund - Conformance with Federal Safe Drinking Water Act

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This 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. MDE may transfer funds between the two loan funds. Private borrowers from these funds must demonstrate that there is adequate security for the repayment of the loan; interest free loans may be made. Loan repayments must begin no later than one year after completion, and all loans must be fully amortized no later than 20 years after project completion.

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: Potential meaningful impact on small businesses as discussed below.

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 Governor's proposed 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.

There are currently 266 privately owned drinking water systems and 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.

MDE advises that the Governor's proposed 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).

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.

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 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 providers would qualify as small businesses.

The amount of funds currently budgeted for fiscal 1998 for loans is $40 million through the Maryland Water Quality Revolving Loan Fund. As noted above, the actual amount available 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.

Other businesses could also benefit from these loan funds, particularly those hired to provide services associated with an improvement project. This would include businesses involved in construction, plumbers, legal services, banks, accountants, architects, and engineers. Many of these would also qualify as small businesses.

The federal grant conditions associated with funding these loan programs require MDE to maximize the opportunities of Disadvantaged Business Enterprises operated by small business owners, members of minority groups, and women. The historic goal for participation of such enterprises has been 16% of the federal funds provided.

Information Source(s): Maryland Department of the Environment, Baltimore City, Prince George's County, Department of Fiscal Services

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