

Department of Legislative Services
 Maryland General Assembly
 2007 Session

FISCAL AND POLICY NOTE

House Bill 376 (Delegate Beitzel, *et al.*)
 Environmental Matters

Environment - Bay Restoration Fund - Users

This bill modifies the definition of “user” under the provisions of law relating to the Bay Restoration Fund to exempt users of onsite sewage disposal (septic) systems and sewage holding tanks *not* located in a drainage basin or watershed that flows into the Chesapeake Bay from the bay restoration fee.

Fiscal Summary

State Effect: Special fund revenue decrease of \$290,100 in FY 2008 and \$386,800 annually thereafter due to the bill’s exemption from the bay restoration fee for certain users. No direct effect on State expenditures.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
SF Revenue	(\$290,100)	(\$386,800)	(\$386,800)	(\$386,800)	(\$386,800)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$290,100)	(\$386,800)	(\$386,800)	(\$386,800)	(\$386,800)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Garrett and Worcester counties may realize some administrative savings from billing fewer fee payers. Under current law, billing authorities may retain up to 5% of fees collected to offset their administrative costs.

Small Business Effect: Minimal.

Analysis

Current Law:

In General

Chapter 428 of 2004 established the Bay Restoration Fund, which is administered by the Water Quality Financing Administration (WQFA) within the Maryland Department of the Environment (MDE). The main goal of the fund is to provide grants to owners of wastewater treatment plants (WWTPs) to reduce nutrient pollution to the Chesapeake Bay by upgrading the systems with enhanced nutrient removal (ENR) technology.

Revenue Source

As a revenue source for the fund, Chapter 428 established a bay restoration fee on users of wastewater facilities, septic systems, and sewage holding tanks. The fee is \$2.50 per month (\$30 annually), for each residential dwelling that receives an individual sewer bill and for each user of a septic system or sewage holding tank that receives a water bill. For a building or group of buildings under single ownership or management that contain multiple residential dwellings that do not receive an individual sewer bill, or for a nonresidential user, Chapter 428 establishes a sliding fee scale based on the volume of wastewater generated. The fees described above, which are collected through water and sewer bills, took effect January 1, 2005. The fee for each user of a septic system or a sewage holding tank that does not receive a water bill is \$30 per year, effective October 1, 2005.

Certain users, including local governments, are exempt from the fee. Subject to approval by WQFA, a local government or a billing authority for a water or wastewater facility is authorized to establish a program to exempt a residential dwelling able to demonstrate substantial financial hardship.

Use of Funds

After a deduction by billing authorities for administrative costs, fee revenue from WWTP users will support the issuance of bonds to provide the additional revenue needed to provide grants to WWTP owners for the upgrades. Eligible costs for ENR grants include the costs attributable to upgrading a facility from biological nutrient removal (BNR) to ENR. Other allowable uses of the revenue collected from WWTP users include grants for sewer infrastructure projects, grants to offset a portion of operation and maintenance costs associated with ENR technology, and administrative expenses. Of the revenue collected from users of septic systems and sewage holding tanks, 60% must be deposited

into a separate account within the fund to provide grants and loans to septic system owners to upgrade their septic systems, while 40% must be transferred to the Maryland Agricultural Water Quality Cost Share Program within the Maryland Department of Agriculture (MDA) to provide financial assistance to farmers for planting cover crops.

Background: ENR upgrades of the State's 66 major publicly owned WWTPs are currently underway. According to MDE, 2 ENR upgrades have been completed, and 10 are under construction. As of November 30, 2006, the Comptroller had deposited approximately \$95 million into the Bay Restoration Fund as a result of fees collected from WWTP users. With respect to fees collected from septic system users, the Comptroller had deposited approximately \$9 million into MDE's septic account and had transferred approximately \$6 million to MDA for cover crop activities.

The Governor's proposed fiscal 2008 budget includes \$6 million for MDE's septic grant and loan program and approximately \$4.6 million in special funds for MDA's cover crop activities.

MDE reports that, to date, 10 local jurisdictions have had septic system upgrade projects approved by the Board of Public Works; among those is a Worcester County project that is projected to upgrade 188 systems in the Atlantic Coastal Bays Watershed at a cost of approximately \$1.1 million.

State Revenues: Special fund revenues from the bay restoration fee would decrease by an estimated \$290,120 in fiscal 2008 and by \$386,826 annually thereafter due to the bill's exemption. The fiscal 2008 estimate reflects the bill's October 1, 2007 effective date. Under current law, after local administrative costs are deducted, 60% of the revenues collected from septic system and sewage holding tank users is deposited in MDE's septic account and used to provide grants and loans for upgrading septic systems with nitrogen removal technology. The remaining 40% is transferred to MDA for cover crop activities. Accordingly, MDE's revenues would decrease by an estimated \$174,072 in fiscal 2008 and \$232,096 annually thereafter, and MDA's revenues would decrease by an estimated \$116,048 in fiscal 2008 and \$154,730 annually thereafter.

These estimates are based on information provided by MDE and assume that 8,851 systems outside of the Chesapeake Bay watershed in Garrett County and 4,108 systems in the Atlantic Coastal Bays drainage area would pay \$30 annually in the absence of the bill. The estimates assume that local administrative costs total approximately 0.5% of fee collections (rather than the maximum amount allowed). In addition, the estimates do not reflect potential growth; any additional households with septic systems and sewage holding tanks would increase the amount of revenue loss in the out-years.

Small Business Effect: Any small businesses that have septic systems or sewage holding tanks located outside of the Chesapeake Bay watershed would no longer be subject to the bay restoration fee. However, there would be less funding available for MDE's septic grant and loan program, which could have a negative impact on any small business that otherwise would have received an upgrade or that would have been involved in the upgrade work. MDE advises that the number of septic systems upgraded would be reduced by 20 annually under the bill.

In addition, there would be less funding available for farmers to help them offset the costs of planting cover crops. MDA advises that the bill would prevent an estimated 4,000 acres of cover crops from being planted each year.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Department of the Environment, Maryland Department of Agriculture, Comptroller's Office, Garrett County, Worcester County, Department of Legislative Services

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mll/ljm

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