

Department of Legislative Services

Maryland General Assembly

2007 Session

FISCAL AND POLICY NOTE

House Bill 1268

(Delegates Elliott and Stull)

Environmental Matters

Bay Restoration Fund - Disbursement of Funds

This bill modifies the distribution of bay restoration fees collected from users of septic systems and sewage holding tanks to provide that 60% is distributed to the Maryland Department of Agriculture (MDA) for cover crop activities and 40% is deposited into the Septics Account of the Bay Restoration Fund within the Maryland Department of the Environment (MDE).

The bill takes effect July 1, 2007.

Fiscal Summary

State Effect: The bill would redistribute an estimated \$2.5 million annually beginning in FY 2008 in special fund revenues from MDE to MDA. Special fund expenditures in each agency would be affected correspondingly. General fund expenditure increase of \$200,600 annually to offset the reduction in special funds within MDE in order to support ongoing administrative activities.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
SF Revenue	\$0	\$0	\$0	\$0	\$0
GF Expenditure	200,600	200,600	200,600	200,600	200,600
SF Expenditure	0	0	0	0	0
Net Effect	(\$200,600)	(\$200,600)	(\$200,600)	(\$200,600)	(\$200,600)

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

Local Effect: The redistribution of bay restoration fee revenue would result in a decrease in financial assistance to local governments for septic system upgrades in their jurisdictions.

Small Business Effect: Minimal overall impact. The redistribution of bay restoration fee revenue would result in a decrease in financial assistance available for septic system upgrades and an increase in financial assistance available for farmers for cover crop activities.

Analysis

Current Law: Chapter 428 of 2004 established the Bay Restoration Fund within MDE. The main goal of the fund is to provide grants to owners of wastewater treatment plants to reduce nutrient pollution to the Chesapeake Bay. 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 fee is \$2.50 per month (\$30 annually) for each “equivalent dwelling unit” (EDU), generally 250 gallons of wastewater effluent generated daily, up to 3,000 EDUs, and \$1.25 per month (\$15 annually) for each EDU exceeding that threshold and up to 5,000 EDUs. Based on that “cap,” the maximum fee is \$120,000 annually. The maximum fee for a single site is \$120,000. 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.

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 and to implement an education and outreach program. The remaining 40% must be transferred to the Maryland Agricultural Water Quality Cost Share Program (MACS) within MDA to provide financial assistance to farmers for planting cover crops.

Background: As of November 30, 2006, the Comptroller had deposited approximately \$9 million into MDE’s Septics Account and had transferred approximately \$6 million to MDA’s Cover Crop Program. The Governor’s proposed fiscal 2008 budget includes \$6 million for MDE’s septics grant and loan program. The Governor’s proposed fiscal 2008 budget includes approximately \$8.8 million for MDA’s Cover Crop Program,

which includes approximately \$4.7 million in special funds from the Bay Restoration Fund.

State Fiscal Effect: By reversing the existing distribution of bay restoration fees collected from users of septic systems and sewage holding tanks, the bill would provide additional funding for cover crop activities within MDA and would reduce funding for MDE's septic system upgrade program. Currently, 60% of such funds are distributed to MDE's Septics Account and 40% are transferred to MACS for cover crop activities. Based on anticipated out-year estimates of fee collections and accounting for the deduction of local administrative costs, the bill would redistribute an estimated \$2.5 million annually in special fund revenues from MDE to MDA. Special fund expenditures in each agency would be affected correspondingly.

As a result of the redistribution of funds, MDA's administrative expenditures would increase by an estimated \$46,553 in fiscal 2008, which accounts for a 90-day start-up delay. This estimate reflects the cost of hiring one soil conservation specialist to assist with program implementation. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Positions	1
Salary and Fringe Benefits	\$37,750
Equipment and Operating Expenses	<u>8,803</u>
MDA FY 2008 Administrative Expenditures	\$46,553

Future year MDA administrative expenditures reflect • a full salary with 4.5% annual increases and 3% employee turnover; and • 1% annual increases in ongoing operating expenses. These administrative costs would be funded from the additional special funds that MDA would receive as a result of this bill. Any additional funds not used for administrative purposes would be used to provide cost-share payments to farmers for planting cover crops. MDA estimates that the additional funding could allow approximately 62,000 additional acres to be planted each year.

Under current law, MDE may use up to 8% of the fees deposited into the Septics Account for specified administrative costs; by reducing the annual revenue stream to this account by \$2.5 million annually, the amount MDE would be allowed to spend for such administrative costs would decrease by an estimated \$200,592 annually. Because the septic system upgrade program is currently understaffed, if MDE is expected to continue administering the program, general funds would be needed to offset the reduction in special funds. MDE advises that if general funds are not provided, it would not be able to fill the two new positions that have been included in the Governor's proposed fiscal 2008

budget (anticipated to be special funded), nor would it be able to hire certain contractual services necessary for the program. Accordingly, general fund expenditures would increase by \$200,592 to offset the loss in MDE special funds for administration. Any positions affected by this loss of special funding would instead be funded with general funds.

MDE advises that the redistribution of funding under the bill would reduce the number of septic upgrades it could fund by nearly 200 annually.

Additional Information

Prior Introductions: None, although SB 5 of 2006, as amended by the Senate, contained one provision that would have redistributed bay restoration fund revenues as provided in this bill. The bill was further amended in the House and a conference committee was appointed to resolve the differences. However, no further action was taken.

Cross File: None.

Information Source(s): Maryland Department of the Environment, Maryland Department of Agriculture, Washington County, Montgomery County, Prince George's County, Kent County, Department of Legislative Services

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mam/ljm

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