

Department of Legislative Services
 Maryland General Assembly
 2008 Session

FISCAL AND POLICY NOTE

House Bill 734 (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 for cover crop activities and 40% is deposited into the Septics Account of the Bay Restoration Fund within the Maryland Department of the Environment.

The bill takes effect July 1, 2008.

Fiscal Summary

State Effect: The bill would redistribute an estimated \$2.5 million annually beginning in FY 2009 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 2009	FY 2010	FY 2011	FY 2012	FY 2013
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. The additional funding available for cover crop activities could result in an increase in workload for soil conservation districts.

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 by upgrading the systems with enhanced nutrient removal technology. 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.

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 January 31, 2008, the Comptroller had deposited approximately \$20.1 million into MDE's Septics Account and had transferred approximately \$13.4 million to MDA's Cover Crop Program. The Governor's proposed fiscal 2009 budget includes \$6 million in special funds for MDE's Septic System Upgrade Program. The Governor's proposed fiscal 2009 budget includes approximately \$8.4 million for MDA's Cover Crop Program, which includes approximately \$5.0 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 \$46,734 in fiscal 2009, 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	\$41,551
Equipment and Operating Expenses	<u>5,183</u>
MDA FY 2009 Administrative Expenditures	\$46,734

Future year MDA administrative expenditures reflect • a full salary with 4.4% annual increases and 3% employee turnover; and • 2% 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 74,000 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. If MDE is expected to continue administering the program, general funds would be needed to offset the reduction in special funds. Accordingly, general fund expenditures would increase by \$200,592 annually to offset the loss in MDE special funds for administration.

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: Virtually identical legislation was introduced as HB 1268 of 2007. The House Environmental Matters Committee held a hearing on the bill but no further action was taken. 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 but no further action was taken.

Cross File: None.

Information Source(s): Baltimore City, Caroline County, Howard County, Montgomery County, Maryland Department of the Environment, Maryland Department of Agriculture, Department of Legislative Services

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mam/jr

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