

Department of Legislative Services
 Maryland General Assembly
 2009 Session

FISCAL AND POLICY NOTE

House Bill 1417 (Chair, Environmental Matters Committee)(By Request -
 Departmental - Environment)

Environmental Matters Education, Health, and Environmental Affairs

Water Quality and Drinking Water Quality Revolving Loan Funds - Use of Funds

This emergency departmental bill (1) authorizes the Maryland Water Quality Financing Administration to establish accounts and subaccounts within the Water Quality Revolving Loan Fund to meet the requirements of any federal law or of any federal grant or award; and (2) adds to the list of allowable uses of money in the Water Quality Revolving Loan Fund and the Drinking Water Revolving Loan Fund, the provision of financial assistance in the form of grants, negative interest loans, forgiveness of principal, subsidized interest rates, and any other form of financial assistance as authorized or required by the American Recovery and Reinvestment Act of 2009.

Fiscal Summary

State Effect: Federal fund revenues increase by \$94.8 million in FY 2010 for the Water Quality Revolving Loan Fund and by \$26.8 million in FY 2010 for the Drinking Water Revolving Loan Fund. Federal fund expenditures increase by a corresponding amount for each fund in FY 2010. MDE advises that \$2.0 million of federal fund expenditures from the Water Quality Revolving Loan Fund and \$400,000 from the Drinking Water Revolving Loan Fund will be used to hire consultants/contractors for design review and other engineering services and expended from FY 2010 to 2013. To the extent federal funds become available in FY 2009, expenditures of \$121.6 million are accelerated.

(in dollars)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
FF Revenue	\$121,600,000	\$0	\$0	\$0	\$0
FF Expenditure	\$119,800,000	\$600,000	\$600,000	\$600,000	\$0
Net Effect	\$1,800,000	(\$600,000)	(\$600,000)	(\$600,000)	\$0

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

Local Effect: Local government revenues increase significantly in FY 2010 because local governments are the primary beneficiaries of assistance from the Water Quality Revolving Loan Fund and Drinking Water Revolving Loan Fund.

Small Business Effect: The Maryland Department of the Environment (MDE) has determined that this bill has a meaningful impact on small business (attached). Legislative Services concurs with this assessment.

Analysis

Current Law: The Water Quality Financing Administration (WQFA) of MDE was created during the 1988 session of the Maryland General Assembly as a component unit of the State of Maryland. WQFA administers two loan programs:

- The Water Quality Revolving Loan Fund was created in 1988 to provide below market rate loans for water quality projects. The fund provides financial assistance for a wide variety of projects to protect or improve the quality of Maryland's rivers, streams, lakes, the Chesapeake Bay, and other water resources.
- The Drinking Water Revolving Loan Fund was created in 1993 to provide below market rate of interest loans for drinking water projects. The fund provides financial assistance for a wide variety of projects to facilitate compliance with national primary drinking water standards that protect or improve the quality of Maryland's drinking water resources. The federal Safe Drinking Water Act requires that all community water systems demonstrate the managerial, technical, and financial capacity to maintain the system prior to receiving a drinking water loan.

Both loan programs receive federal funding from the U.S. Environmental Protection Agency and offer below market interest rate loans to eligible borrowers, while ensuring the perpetuity of the revolving funds.

Background: The American Recovery and Reinvestment Act of 2009 provides a substantial amount of funding for water quality and drinking water infrastructure improvements in Maryland. The two primary federal funding sources for water policy are the Clean Water State Loan Fund and the Drinking Water State Loan Fund. A summary of the two revolving loan funds and American Recovery and Reinvestment Act of 2009 actions is shown in **Exhibit 1**.

State Fiscal Effect: MDE advises that the State would benefit from additional federal funding of approximately \$94.8 million for wastewater treatment plant improvements and \$26.8 million for water treatment plant improvements. The federal stimulus funding is one-time and must be obligated to projects ready to start construction by February 16, 2010, or else the funding will be reallocated to other states. MDE's application process for the federal stimulus funding ended February 28, 2009, with project lists ready in March. This analysis assumes funding becomes available in fiscal 2010, and is primarily expended that year, with the exception of \$1.8 million for contractual services that is expended in equal amounts from fiscal 2011 to 2013. To the extent federal funds become available in fiscal 2009, expenditures may be accelerated.

Exhibit 1
Water Quality and Drinking Water Funding
Fiscal 2009

<u>Federal Fund</u>	<u>History/Purpose</u>	<u>State Connection</u>	<u>Additional Stimulus</u>	<u>Estimated State Share</u>
Clean Water State Fund	Created by the amendments to legislation in 1977 that led to the Clean Water Act, which set water quality standards and funded construction of sewage treatment plants	Water Quality Revolving Loan Fund	\$4.0 billion (of which approximately 1.0%, or \$40.0 million, is for administration)	\$94.8 million (approximately 2.40% of \$3.96 billion)
Drinking Water State Fund	Created by the amendments to legislation in 1996 that led to the Safe Drinking Water Act, which finances infrastructure improvements for drinking water systems	Drinking Water Revolving Loan Fund	\$2.0 billion (of which approximately 1.0%, or \$20.0 million, is for administration)	\$26.8 million (approximately 1.34% of \$1.98 billion)

Source: Department of Legislative Services

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 17, 2009
ncs/ljm

Analysis by: Evan M. Isaacson

Direct Inquiries to:
(410) 946-5510
(301) 970-5510

ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Water Quality and Drinking Water Quality Revolving Loan Funds – Use of Funds

BILL NUMBER: HB 1417

PREPARED BY: Department of the Environment

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

Local Governments will be affected by this action. This bill will enable use of State Water Quality and Drinking Water Revolving Loan Funds for grants, negative interest loans and principle forgiveness. Local governments, which are recipients fo revolving loan funds for wastewater and drinking water infrastructure projects, will directly benefit from the Department’s ability to award grants and to make loans on these more favorable terms. .