

Department of Legislative Services
Maryland General Assembly
2013 Session

FISCAL AND POLICY NOTE

House Bill 827

(Delegate Hucker, *et al.*)

Environmental Matters

Environment - Water Supply and Wastewater Infrastructure - Fund

This bill establishes a Water Supply and Wastewater Infrastructure Trust Fund within the Maryland Department of the Environment (MDE). The bill redirects funds that are currently deposited directly into the Water Quality Revolving Loan Fund and Drinking Water Revolving Loan Fund into the new fund to provide the State's matching funds that are required for specified federal funds deposited into these two revolving funds. Any balance remaining after depositing the required matching funds into the two revolving loan funds may be used for specified grants and scholarships.

The bill takes effect July 1, 2013.

Fiscal Summary

State Effect: The bill does not materially affect State operations or finances, assuming that the appropriations for the Water Quality Revolving Loan Fund and Drinking Water Revolving Loan Fund continue to be maintained each year at the minimum levels needed to satisfy federal matching fund requirements. To the extent that an appropriation is made to support the uses of the new fund beyond the level needed to satisfy the matching fund requirements, general fund expenditures increase, potentially significantly, for new personnel within MDE to administer the fund, and grant revenues may increase for State colleges and universities.

Local Effect: The bill does not materially affect local operations or finances unless an appropriation is made to support the fund in the future beyond the level needed to satisfy the matching fund requirements. If such an appropriation is made, grant revenues may increase for locally owned water supply and wastewater systems and local community colleges.

Small Business Effect: Minimal.

Analysis

Bill Summary: The Water Supply and Wastewater Infrastructure Trust Fund consists of money appropriated from the State budget to the fund, investment earnings, and any other money from any other source. The bill prohibits interest earnings from reverting to the general fund.

Any balance remaining in the fund after depositing the required matching funds into the two revolving loan funds may be used to (1) make grants for technical assistance and training to assist small public systems with regulatory compliance, financial management, and technical operations; (2) make grants for water supply and wastewater infrastructure research and development at public colleges and universities in the State; and (3) provide scholarships for operators of publicly owned water supply and wastewater systems to attend required training and certification workshops.

Current Law/Background:

Drinking Water and Water Quality Revolving Loan Funds

The Maryland Water Quality Revolving Loan Fund, which is administered by the Water Quality Financing Administration (WQFA) within MDE, was created in 1988 to provide low-interest loans to public entities for wastewater and other water quality capital projects. Other assistance is provided through purchasing, guaranteeing, or refinancing debt. Chapter 168 of 2009 (HB 1417) expanded the authorized use of the fund to include grants, negative interest loans, forgiveness of principal, subsidized interest rates, and other forms of assistance as authorized or required by the American Recovery and Reinvestment Act of 2009.

The Drinking Water Revolving Loan Fund was created in 1993 to provide below market rate 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 the State's drinking water resources. The federal Safe Drinking Water Act (SDWA) requires all community water systems to demonstrate the managerial, technical, and financial capacity to maintain the system prior to receiving a drinking water loan.

Both revolving loan funds receive federal capitalization grants and other funding from the U.S. Environmental Protection Agency (EPA) and offer below market interest rate loans to eligible borrowers, thus ensuring the perpetuity of the revolving funds. The Governor's proposed fiscal 2014 budget includes about \$130.0 million for the Water Quality Revolving Loan Fund and \$22.0 million for the Drinking Water Revolving Loan Fund.

Waterworks and Waste System Operators

A 2009 sunset evaluation of the Board of Waterworks and Waste Systems Operators by the Department of Legislative Services found that a significant number of waterworks and waste systems in the State do not employ either an operator, superintendent, or both. Further, many operators possess only a temporary certificate or are exempt through grandfathering. Finally, the evaluation found that small systems are far less likely to have a certified operator or a supervisor.

According to the U.S. Department of Labor's Bureau of Labor Statistics, waterworks operators treat water so that it is safe to drink, and waste systems operators remove harmful pollutants from domestic and industrial waste so that it is safe to return to the environment. Drinking water is pumped from wells, rivers, streams, and reservoirs to water treatment plants, where it is treated and distributed to customers. Wastewater travels through customers' sewer pipes to wastewater treatment plants, where it is treated and either returned to streams, rivers, and oceans or reused for irrigation and landscaping. Operators in both types of plants control equipment and processes that remove or destroy harmful materials, chemicals, and microorganisms and control pumps, valves, and other equipment that moves the water or wastewater. Water quality standards are largely set by two major federal environmental statutes: SDWA, which specifies standards for drinking water, and the Clean Water Act, which regulates the discharge of pollutants.

Under SDWA, EPA previously provided state grants to reimburse operators of small water systems for training and certification costs. An average of about \$437,000 in grants was appropriated between fiscal 2010 and 2012, but this federal grant closed in 2012. Grants for technical assistance and training for operators of small water systems may come from a portion of the funds in a set aside account within the Drinking Water Revolving Loan Fund.

State Fiscal Effect: MDE advises that the annual appropriation for the Water Quality Revolving Loan Fund and Drinking Water Revolving Loan Fund is based on the amount necessary to satisfy the federally required 20% match. Therefore, without an additional appropriation, the bill is not anticipated to result in additional funding to support any of the specified uses of the fund beyond the matching funds requirement. MDE advises however, that the establishment of the fund and the diversion of money designated for the 20% match for the revolving loan funds creates a minimal operational burden with respect to the budget process for WQFA.

To the extent that money is appropriated for the new fund (above the amount needed to satisfy the federally required 20% match) in future years, MDE advises that it would need to hire several new employees, depending on the amount appropriated; WQFA does not have experience in administering the types of activities authorized by the bill. The new positions would likely include one or more engineers, accountants, administrators, and secretaries to manage and track appropriations, applications, and grant awards and to

develop funding and prioritization criteria and standard operating procedures for allocating funds and identifying deliverables. To the extent that MDE becomes involved in providing training and technical assistance to recipients of funding, additional engineering personnel may be necessary. *For illustrative purposes*, if significant funding is appropriated to support each of the uses identified in the bill, including providing training or technical assistance, MDE advises that it may require a total of seven new positions, including three engineers, two accountants, one administrator, and one secretary, at a cost of more than \$500,000 annually. It is assumed that any administrative costs would need to be covered with general funds, as the bill does not authorize the use of the new special fund for administrative purposes.

Local Revenues: Assuming that the annual appropriation for the Water Quality Revolving Loan Fund and Drinking Water Revolving Loan Fund continues to be set each year at a level necessary only to satisfy the federally required 20% match, the bill does not affect local operations or finances. However, if the new fund has any remaining balance after the deposit of the required matching funds to the two revolving loan funds, revenues from grants and scholarships may increase for small locally owned water supply and wastewater systems or for local community colleges with the ability to engage in research and development of water supply and wastewater infrastructure.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Baltimore, Dorchester, Howard, and Montgomery counties; the cities of Frederick and Havre de Grace; Maryland Department of the Environment; U.S. Bureau of Labor Statistics; U.S. Environmental Protection Agency; Department of Legislative Services

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