

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3774-07
Bill No.: SCS for HCS for HB 1149
Subject: Bonds - General Obligation and Revenue; Sewers and Sewer Districts; Utilities;
Water Resources and Water Districts
Type: Original
Date: May 1, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Total Estimated Net Effect on General Revenue Fund	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Safe Drinking Water Fund*	\$0	\$1,121,031	(\$355,819)
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$1,121,031	(\$355,819)

*This impact reflects changes to the Drinking Water Primacy Fees revenue. It does not include revenue generated from laboratory services and program administration fees, laboratory certification fees, and operator certification fees which are not impacted by this proposal.

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 12 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Department of Natural Resources	Unknown	Unknown	Unknown
Total Estimated Net Effect on <u>All</u> Federal Funds	Unknown	Unknown	Unknown

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTIONS

Officials from the **Missouri Senate**, the **Missouri House of Representatives**, the **Office of the State Treasurer**, the **Office of Administration, Division of Budget and Planning**, and **Hickory County** assume no fiscal impact to their agencies.

In response to a similar proposal, officials from the **Department of Agriculture** assume no fiscal impact to their agency.

In response to a similar proposal, officials from the **Department of Health and Senior Services** assume this proposal would not be expected to fiscally impact the operations of the department. If a fiscal impact were to result, funds to support the program would be sought through the appropriations process.

ASSUMPTION (continued)

Officials from the **Department of Natural Resources** assume this proposal would allow the director or the commission to require the filing or posting of a bond as a condition for the issuance of permits for construction of temporary water treatment facilities that utilize innovative wastewater treatment technology. The department would not anticipate any direct fiscal impact.

Drinking Water Primacy Fee

Officials from the **Department of Natural Resources** assume in FY06 the existing primacy fee rate structure is anticipated to generate approximately \$2.8 million. However the current costs for these efforts is approximately \$4 million. The funding needed to cover the difference has come from the existing fund balance.

The proposed legislation would enable the department to cover the revenue shortfall to maintain the current level of effort and provide approximately \$.5 million to provide the analytical support needed to implement new federal regulations filed in January 2006.

<i>Water System Service Connections</i>	<i>No. of Systems in Rate Bracket</i>	<i>Total No. of Active Service Connections</i>	<i>Current Rate</i>	<i>Current Revenues</i>	<i>Proposed Rate</i>	<i>Proposed New Revenues</i>
<i>1 - 1,000</i>	<i>1,109</i>	<i>237,058</i>	<i>2</i>	<i>464,634</i>	<i>3.24</i>	<i>752,707</i>
<i>1,001 - 4,000</i>	<i>184</i>	<i>352,116</i>	<i>1.84</i>	<i>634,936</i>	<i>3</i>	<i>1,033,841</i>
<i>4,001 - 7,000</i>	<i>33</i>	<i>173,198</i>	<i>1.67</i>	<i>283,456</i>	<i>2.76</i>	<i>467,702</i>
<i>7,001 - 10,000</i>	<i>16</i>	<i>132,269</i>	<i>1.5</i>	<i>194,435</i>	<i>2.4</i>	<i>310,449</i>
<i>10,001 - 20,000</i>	<i>5</i>	<i>71,213</i>	<i>1.34</i>	<i>93,517</i>	<i>2.16</i>	<i>150,813</i>
<i>20,001 - 35,000</i>	<i>7</i>	<i>188,090</i>	<i>1.17</i>	<i>215,664</i>	<i>1.92</i>	<i>354,002</i>
<i>35,001 - 50,000</i>	<i>1</i>	<i>46,696</i>	<i>1</i>	<i>45,762</i>	<i>1.56</i>	<i>71,389</i>
<i>50,001 - 100,000</i>	<i>1</i>	<i>75,929</i>	<i>0.84</i>	<i>62,505</i>	<i>1.32</i>	<i>97,924</i>
<i>> 100,000</i>	<i>3</i>	<i>609,920</i>	<i>0.66</i>	<i>394,496</i>	<i>1.08</i>	<i>644,942</i>
<i>TOTAL REVENUES</i>				<i>\$2,797,138</i>		<i>\$4,528,668</i>

The department is obligated by law to provide all public water systems in Missouri with the laboratory support required by the Safe Drinking Water Act.

ASSUMPTION (continued)

A major change to the Radionuclide Rule, promulgated in December, 2000, was the requirement to test every community water system source where it enters the distribution system; the previous rule required only one sample per system. This requirement has significantly increased the annual cost of the department's contract for radionuclide analyses - that cost rose from \$168,000 to \$480,000 for FY 2006.

New federal rules promulgated in January 2006, to support the Safe Drinking Water Act will have a significant impact on both program workload and analytical expense. These rules are the Long Term 2 Surface Water Treatment Rule (LT2), the Stage 2 Disinfectants and Disinfection Byproducts Rule (Stage 2 D/DBP) and the Groundwater Rule.

There are currently 83 surface water systems in Missouri. The implementation dates, sample frequency and duration is based upon the size of the public water system; the larger systems must begin 24 consecutive months of source water testing for cryptosporidium, E.coli and turbidity by July of 2006. The department has determined that there will be four implementation cycles for Missouri's water systems for this new rule. The testing must be performed using EPA Method 1622 or 1623 in a laboratory certified by EPA to run those methods. The cost per sample, to include the cost of shipping the sample to the laboratory, is projected to be \$576. There are stringent quality control requirements inherent of these analytical methods that frequently (25%) result in additional filtering of water samples thereby increasing the sampling costs. The costs for additional filtering and analysis is \$250 per sample.

There are 61 surface water systems that serve less than 10,000 people. They must submit two samples per month for 12 consecutive months for E.coli bacteria. If trigger levels of E.coli are exceeded, these smaller systems will also be required to test for cryptosporidium. The department projects that as many as 75% of these smaller systems will exceed these limits resulting in the need for the cryptosporidium testing. The per sample contract cost for E.coli analysis, to include to cost of shipping the sample, is projected to be \$45. The department has applied a conservative increase of 2.5% each year to the costs.

One significant impact of the Stage 2 D/DBP rule is the requirement to test consecutive systems for Trihalomethanes (THMs) and Haloacetic Acids (HAAs). There are 276 consecutive systems (systems that buy their water from other water systems). Another large impact is the requirement for every system to do an Initial Distribution System Evaluation (IDSE) to identify areas in their respective distribution systems that have elevated levels of DBPs. IDSE waivers are available to systems under 500 population or if the system has two years of qualifying compliance data.

ASSUMPTION (continued)

The department's Environmental Services Program currently analyzes approximately 2,000 THM samples and 1,600 HAA samples for Missouri's public water systems each year; adding an additional 276 systems would double that workload.

There are a total of 275 systems that would be required to do an IDSE requiring additional THM and HAA testing. This initial implementation of this monitoring begins in October 2006 with the final implementation beginning in April 2008.

The projected per sample cost for THMs, to include the cost of shipping the sample to the laboratory, is \$55 and the projected per sample costs for HAAs, including the cost of shipping the sample, is \$47. The program has applied a conservative increase of 2.5% each year to the costs.

In addition to the on-going sample analysis costs, the department is requesting the addition of one laboratory technician to process these additional samples and the purchase of an Autosampler at \$40,000 and a Gas Chromatograph at \$80,000.

Impaired Waters

Officials from the **Department of Natural Resources (DNR)** assume this proposal would modify the process by which lists of impaired waters of the state are made. The provisions of the act would expire on August 29, 2009.

The act would direct that any listing of impaired waters that is to be sent to the Environmental Protection Agency must first be adopted by the Clean Water commission after newspaper notices and one or more public hearings. Notification requirements for such hearing are described in the act, including the information that would be published on the Department of Natural Resources website. The DNR would be required to publish a revised list based on public comment, after which the commission could adopt a list based upon the department's comments.

This could allow for an earlier submittal of the state's 303(d) lists. The 2006 list is due April 2006, but at this time its submission is not possible until at least September 2007. With the statutory change, the DNR could meet the 2006 submittal deadline.

The proposal would require a public notice to be placed in five major newspapers for the proposed list of impaired waters of the state, to include the 90 day advance notice of date, time and place of the public hearing would cost approximately \$1,363 for each list.

ASSUMPTION (continued)

St. Louis Post-Dispatch \$696 daily, \$915.87 Sunday, = \$5.00 affidavit fee
Kansas City Star \$230.05 daily, \$242.90 Sunday
Springfield News-Leader \$76.18 daily, \$89.98 Sunday
Moberly Monitor-Index \$70.40
Jefferson City News Tribune \$39.20

Cost savings of no longer having to do the 303(d) list by rule would likely offset the publication cost outlined in this proposal.

Water Pollution Permit Fees Extension

Officials from the **Department of Natural Resources** assume this proposal would extend the fees for wastewater permits imposed under the water pollution statutes until December 31, 2009. Extension of these fees would provide some of the resources needed to administer the state water pollution control efforts.

The proposal would also create a joint committee to consider proposals for restructuring the fees imposed under Sections 644.052 and 644.053 RSMo. The committee would review the state's implementation of the federal clean water program and related state clean water responsibilities, and evaluate the costs to the state for maintaining the program. The committee would prepare and submit a report, including recommendations on funding the state clean water program, to the Governor, the House of Representatives and the Senate no later than December 31, 2008.

Extension of the service connection fees, annual operating fees, general permit fees, construction permit fees and modification fees at current levels would provide a portion of the funding necessary to continue management of the federal water pollution control efforts administered by the department.

In FY06 the water permit fee rate structure is expected to generate approximately \$3.9 million. These fees support the permitting, engineering, inspection and compliance activities of the department's water pollution control efforts. However the current costs for these efforts is approximately \$8.2 million. The funding needed to cover the difference has come from federal grants, general revenue and managing fund expenditures with available cash, which detracts from the amount of work the department is able to accomplish.

ASSUMPTION (continued)

	FY 2003	FY 2004	FY 2005
Water Permit Fees	\$4,386,639	\$4,135,018	\$4,468,517
Federal Funds	\$4,410,999	\$3,036,821	\$2,903,435
General Revenue	\$1,237,302	\$1,601,761	\$911,590
Total	\$10,034,940	\$8,773,600	\$8,283,542

Each fiscal year, the amount of permit revenues deposited into the permit fees subaccount of the Natural Resources Protection Fund, Water Permit Fees subaccount, corresponds to permitting activity. The ending balance in the Permit Fees subaccount for FY03 - \$4,440.77; FY04 - \$327,897.27; and FY05 - \$389,270.38. Each year the total funding from fees, federal funds and general revenue available to support the department's primary water pollution control efforts, including permitting, has decreased.

Extension of the current fee structures would maintain the current level of service in the short term. However as costs continue to rise and federal sources of funds are reduced, there is concern the level of service will decline. The department assumes the level of services would have to be adjusted to match the funds available.

By extending the water permit fee rate structure, this proposal is estimated to generate an estimated \$4.5M in revenue annually. The department assumes that a 20% increase in fees across the board would offset the estimated revenue shortfalls.

Oversight assumes these costs would be considered during the restructuring process by the joint committee. Oversight assumes this proposed legislation extends an existing provision by removing or changing the expiration date. Oversight assumes removing or changing the expiration date will extend any fiscal impact associated with the existing provision. Therefore, Oversight has reflected a zero fiscal impact in the fiscal note.

ASSUMPTION (continued)

Officials from the **Office of the Attorney General** and the **Office of the State Auditor** assumed that a previous version of this proposal would have no fiscal impact on their organizations.

In response to a previous version of this proposal, officials of the **Department of Natural Resources (DNR)** assumed that bonds are sold on an as needed basis. Bond sales lag authorization by approximately 3 years.

37(e) money is approved for \$10 million to be spent as follows:
\$7 Million for the 40% State Construction Grant Program
\$3 Million for the Rural Water and Sewer grants

37(g) money is approved for \$10 Million to be spent as follows:
\$5 Million for Rural Water grants and loans
\$5 Million for Rural Sewer grants and loans

37(h) money is approved for \$20 Million to be spent as follows:
\$10 Million for storm water grants
\$10 Million for storm water loans

<u>FISCAL IMPACT - State Government</u>	FY 2006 (10 Mo.)	FY 2007	FY 2008
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SAFE DRINKING WATER FUND

Revenue - Department of Natural Resources

Drinking Water Primacy Fees*	<u>\$0</u>	<u>\$1,731,530</u>	<u>\$4,528,668</u>
Total	<u>\$0</u>	<u>\$1,731,530</u>	<u>\$4,528,668</u>

Cost - Department of Natural Resources

Salaries	\$0	\$0	(\$23,985)
Fringe Benefits	\$0	\$0	(\$10,568)
Equipment & Expense	\$0	(\$129,614)	-6194\$0
Other Fund Costs	<u>\$0</u>	<u>(\$480,885)</u>	<u>(\$4,843,740)</u>
Total	<u>\$0</u>	<u>(\$610,499)</u>	<u>(\$4,884,487)</u>

**ESTIMATED NET EFFECT ON
SAFE DRINKING WATER FUND**

<u>\$0</u>	<u>\$1,121,031</u>	<u>(\$355,819)</u>
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*This revenue only reflects changes to the Drinking Water Primacy Fees. It does not include revenue generated from laboratory services and program administration fees, laboratory certification fees, and operator certification fees which are not impacted by this proposal.

DNR FEDERAL FUNDS

<u>Savings</u> - Department of Natural Resources	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
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**ESTIMATED NET EFFECT ON DNR
FEDERAL FUNDS**

<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
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FISCAL IMPACT - Local Government

FY 2006
(10 Mo.)

FY 2007

FY 2008

\$0

\$0

\$0

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This bill requires those constructing temporary or permanent water treatment facilities using new kinds of wastewater treatment technology to post a bond as a condition for the issuance of a permit from the Clean Water Commission. Traditional and novel wastewater treatment facilities will be subject to the same permit requirements.

Drinking Water Primacy Fee

The act extends the expiration date for the public drinking water primacy fees until September 1, 2012. Such fees are in place for the purpose of complying with federal drinking water requirements. The act increases these fees to accommodate new guidelines; the fee amounts are described in the act.

Impaired Waters

The act directs that any listing of impaired waters that is to be sent to the Environmental Protection Agency shall first be adopted by the Clean Water Commission after a public hearing. Notification requirements for such hearing are described in the act, including the information that shall be published on the Department of Natural Resource's Internet website. The department shall publish a revised list based on public comment, after which, the commission may adopt a list based upon the department's comments.

The provisions of the act expire on August 28, 2009.

DESCRIPTION (continued)

Water Pollution Permit Fees Extension

The act extends the fees imposed under the water pollution statutes until December 31, 2009.

The act directs the creation of a joint committee that shall consider proposals for restructuring the fees imposed under Sections 644.052 and 644.053 RSMo, as well as the state's implementation of the federal clean water program. The committee's report shall be due no later than December 31, 2008.

Water Pollution Control Bonds

This proposal would authorize the Board of Fund Commissioners to issue additional bonds for grants and loans pursuant to several sections of Article III of the Missouri Constitution. The authorizations are for:

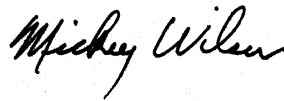
- (1) \$10 million of bonds for waste water pollution control, drinking water system improvements, and storm water control pursuant to Section 37(e);
- (2) \$10 million of bonds for rural water and sewer projects pursuant to Section 37(g); and
- (3) \$20 million of bonds for storm water control plans, studies, and projects in first classification counties and the City of St. Louis pursuant to Section 37(h).

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the State Auditor
Office of the Attorney General
Office of the State Treasurer
Office of Administration
 Division of Accounting
 Division of Budget and Planning
Department of Economic Development
 Office of Public Counsel
 Public Service Commission
Department of Natural Resources
City of Centralia

Mickey Wilson, CPA

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Director
May 1, 2006