

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4156-01  
Bill No.: HB 2094  
Subject: Utilities; Water Resources; Water Districts  
Type: Original  
Date: January 21, 2020

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Bill Summary: This proposal creates the Missouri Water and Sewer Infrastructure Act.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>
General Revenue	\$0 to (Unknown, up to \$417,853)	\$0 to (Unknown, up to \$417,853)	\$0 to (Unknown, up to \$417,853)
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$0 to (Unknown, up to \$417,853)</b>	<b>\$0 to (Unknown, up to \$417,853)</b>	<b>\$0 to (Unknown, up to \$417,853)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>
Public Service Commission Fund (0607)	\$0 to (\$279,423)	\$0 to (\$329,910)	\$0 to (\$333,058)
Other State Funds	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0 to (Greater than \$279,423)</b>	<b>\$0 to (Greater than \$329,910)</b>	<b>\$0 to (Greater than \$333,058)</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Public Service Commission Fund (0607)	0 to 3.28 FTE	0 to 3.28 FTE	0 to 3.28 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>0 to 3.28 FTE</b>	<b>0 to 3.28 FTE</b>	<b>0 to 3.28 FTE</b>

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
<b>Local Government</b>	<b>\$0 to (Unknown)</b>	<b>\$0 to (Unknown)</b>	<b>\$0 to (Unknown)</b>

## **FISCAL ANALYSIS**

### **ASSUMPTION**

#### **Sections 393.1141-393.1147 - Missouri Water and Sewer Infrastructure Act**

Officials from the **Department of Commerce and Insurance (DCI) - Public Service Commission (PSC)** assume the proposed bill would allow all water or sewer companies to file a petition and proposed rate schedule with the Public Service Commission (PSC) to create or change Missouri Water and Sewer Infrastructure Rate Adjustments (WSIRA) between general rate cases, but no more than twice in a twelve month period.

If passed, the bill could potentially result in an estimated 4 to 8 cases each year. If this forecast is accurate, this will result in a significant incremental workload for the Commission. At this time, we estimate that enactment of this bill would require the addition of at least two FTE, one being a Utility Regulatory Engineer I at \$65,899 annually and the other a Utility Regulatory Auditor III at \$51,808 annually. Additionally, we anticipate workload increases for other existing staff, particularly for three specific positions: Regulatory Law Judge (.52 FTE), Chief Counsel (.42 FTE), and Legal Counsel (.34 FTE). However, the workload increases for those three positions does not exceed a full new FTE for each respective position.

Since it is unknown what eligible projects companies would engage in or what rate adjustments would be approved by the Public Service Commission (if any), **Oversight** will reflect a range of \$0 to the estimate cost provided by the DCI-PSC of \$279,423 in FY 2021, \$329,910 in FY 2022 and \$333,058 in FY 2023.

In response to a similar proposal from this year (SB 592), officials from the **Office of Administration - Facilities Management Design and Construction (OA-FMDC)** assumed this bill creates the Missouri Water and Sewer Infrastructure Act, which specifies that a water or sewer corporation may file a petition and proposed rate schedules with the Public Service Commission to create or change a water and sewer infrastructure rate adjustment (WSIRA) that provides for the recovery of pretax revenues associated with eligible infrastructure projects.

Section 393.1145 states that the WSIRA individually, or when combined with an infrastructure system replacement surcharge shall not produce revenues in excess of fifteen percent of the water or sewer corporation's base revenue.

ASSUMPTION (continued)

OA-FMDC assumes this proposal could increase utility costs for OA, other state agencies and for local governments. However, the amount of increase, if any, is unknown because OA-FMDC has no way of knowing what eligible projects companies would engage in or what rate adjustments would be approved by the Public Service Commission.

OA-FMDC assumes that the maximum possible increase in water and sewer costs that could occur because of this legislation would be 15% based on section 393.1506, although not directly applicable. Using a three-year average (FY17 - FY19) and a 15% increase, the maximum potential increase in water and sewer costs to OA-FMDC is \$417,852.99 (see below).

OA-FMDC estimates the impact of this bill is \$0 to \$417,852.99.

	2017	2018	2019	3 Year Total	3 Year Average	15% Increase
Water	\$ 1,036,487.97	\$ 1,005,759.16	\$ 1,176,095.41	\$ 3,218,342.54	\$ 1,072,780.85	\$ 160,917.13
Sewer	\$ 1,644,132.17	\$ 1,731,695.02	\$ 1,762,889.98	\$ 5,138,717.17	\$ 1,712,905.72	\$ 256,935.86
	\$ 2,680,620.14	\$ 2,737,454.18	\$ 2,938,985.39	\$ 8,357,059.71	\$ 2,785,686.57	\$ 417,852.99

**Oversight** assumes this proposal allows a water or sewer corporation to file a petition and proposed rate schedules with the Public Service Commission to create or change a water and sewer infrastructure rate adjustment (WSIRA) that provides for the recovery of pretax revenues associated with eligible infrastructure projects. Oversight assumes this proposal could increase utility cost for the Office of Administration as well as other state agencies and local governments. Since it is unknown what eligible projects companies would engage in or what rate adjustments would be approved by the Public Service Commission (if any), Oversight will reflect a range from \$0 (no utility will increase rates) to an unknown, up to \$417,853 (OA-FMDC's estimate) cost to the General Revenue Fund. Oversight will reflect a \$0 to Unknown cost to other state funds and local political subdivisions.

In response to a similar proposal from this year (SB 592), officials from the **Department of Natural Resources**, the **Department of Commerce - Office of Public Council**, the **Missouri Department of Conservation**, the **Department of Transportation** and the **Metropolitan St. Louis Sewer District** each assumed the proposal will have no fiscal impact on their respective organizations.

**Oversight** notes that the above mentioned agencies have stated the proposal would not have a direct fiscal impact on their organization. Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact on the fiscal note for those organizations.

ASSUMPTION (continued)

Officials from the **Joint Committee on Administrative Rules (JCAR)** state this legislation is not anticipated to cause a fiscal impact beyond its current appropriation.

**Oversight** assumes JCAR will be able to administer any rules resulting from this proposal with existing resources.

**Oversight** only reflects the responses that we have received from state agencies and political subdivisions; however, other sewer and water districts were requested to respond to this proposed legislation but did not. A general listing of political subdivisions included in our database is available upon request.

<u>FISCAL IMPACT - State Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023
<b>GENERAL REVENUE FUND</b>			
<u>Cost - Office of Administration</u>	<u>\$0 to</u>	<u>\$0 to</u>	<u>\$0 to</u>
Potential increase in water and sewer utility costs	<u>(Unknown, up to \$417,853)</u>	<u>(Unknown, up to \$417,853)</u>	<u>(Unknown, up to \$417,853)</u>
<b>ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND</b>	<u><u>\$0 to</u></u> <u><u>(Unknown, up to \$417,853)</u></u>	<u><u>\$0 to</u></u> <u><u>(Unknown, up to \$417,853)</u></u>	<u><u>\$0 to</u></u> <u><u>(Unknown, up to \$417,853)</u></u>

FISCAL IMPACT - State Government  
 (continued)

FY 2021  
 (10 Mo.)

FY 2022

FY 2023

**PUBLIC SERVICE COMMISSION  
 FUND (0607)**

Cost - DCI - PSC

Salaries	\$0 to (\$170,090)	\$0 to (\$206,148)	\$0 to (\$208,209)
Fringe Benefits	\$0 to (\$85,367)	\$0 to (\$103,003)	\$0 to (\$103,572)
Equipment and Expense	<u>\$0 to (\$23,966)</u>	<u>\$0 to (\$20,759)</u>	<u>\$0 to (\$21,277)</u>
<u>Total Cost - DCI-PSC</u>	<u>\$0 to (\$279,423)</u>	<u>\$0 to (\$329,910)</u>	<u>\$0 to (\$333,058)</u>
Total FTE Change - DCI-PSC	0 to 3.28 FTE	0 to 3.28 FTE	0 to 3.28 FTE

**ESTIMATED NET EFFECT TO THE  
 PUBLIC SERVICE COMMISSION  
 FUND (0607)**

<u>\$0 to</u> <u>(\$279,423)</u>	<u>\$0 to</u> <u>(\$329,910)</u>	<u>\$0 to</u> <u>(\$333,058)</u>
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Estimated Net FTE Change to the Public Service Commission Fund (0607)	0 to 3.28 FTE	0 to 3.28 FTE	0 to 3.28 FTE
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**OTHER STATE FUNDS**

Cost - Various State Agencies

Potential increase in water and sewer utility costs	<u>\$0 to</u> <u>(Unknown)</u>	<u>\$0 to</u> <u>(Unknown)</u>	<u>\$0 to</u> <u>(Unknown)</u>
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**ESTIMATED NET EFFECT TO  
 OTHER STATE FUNDS**

<u>\$0 to</u> <u>(Unknown)</u>	<u>\$0 to</u> <u>(Unknown)</u>	<u>\$0 to</u> <u>(Unknown)</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023
<b>LOCAL POLITICAL SUBDIVISIONS</b>			
<u>Cost - Local Governments</u>	<u>\$0 to</u>	<u>\$0 to</u>	<u>\$0 to</u>
Potential increase in water and sewer utility costs	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<b>ESTIMATED NET EFFECT TO LOCAL POLITICAL SUBDIVISIONS</b>	<b><u>\$0 to</u> <u>(Unknown)</u></b>	<b><u>\$0 to</u> <u>(Unknown)</u></b>	<b><u>\$0 to</u> <u>(Unknown)</u></b>

FISCAL IMPACT - Small Business

This legislation could result in increases to a small business' utility rates quicker than under current ratemaking practices in Missouri.

FISCAL DESCRIPTION

The bill establishes the "Missouri Water and Sewer Infrastructure Act", which specifies that a water or sewer company may file a petition and proposed rate schedules with the Public Service Commission to create or change an infrastructure rate adjustment (WSIRA) that provides for the recovery of pretax revenues associated with eligible infrastructure projects. The WSIRA and any future changes must meet specific requirements. The commission cannot approve a WSIRA for a water or sewer corporation that has not had a general rate proceeding decided or dismissed within the past three years of the filing of a WSIRA petition unless the corporation has filed for or is the subject of a new general rate proceeding. A corporation cannot collect a WSIRA for more than three years unless the corporation had filed for or is the subject of a new rate proceeding. In such case, the WSIRA can be collected until the effective date of the new rate schedules.

At the time the corporation files a petition to establish or change a WSIRA, it must submit proposed WSIRA rate schedules and supporting documentation, and it must also serve the Office of Public Counsel with a copy of the petition, rate schedules, and documentation. Upon filing, the commission must publish a notice of the filing, and conduct an examination of the proposed WSIRA, as specified in the bill. The commission may hold a hearing on the petition and any associated WSIRA rate schedules. If the commission finds that a petition complies with the requirements, the commission must enter an order authorizing the corporation to implement the WSIRA. A corporation may effectuate a change in its WSIRA no more often than twice in every 12-month period.

FISCAL DESCRIPTION (continued)

The bill specifies information the commission may consider in determining the appropriate pretax revenues and how the WSIRA is calculated. If this information is unavailable and the commission has not provided it on an agreed-upon basis, the commission must use the last authorized overall pretax weighted average cost of capital for a WSIRA or the last authorized overall pretax weighted average cost of capital in a general rate proceeding for the corporation. At the 12-month period the WSIRA was in effect, the corporation must reconcile the differences between the revenues from a WSIRA and the appropriate pretax revenues found by the commission for that period and submit the reconciliation and proposed WSIRA to the commission for approval to recover or credit the difference.

A corporation that has a WSIRA must file revised WSIRA schedules when new base rates and charges become effective following a general rate proceeding that includes the WSIRA eligible costs in the base rates. Once the eligible costs are included in corporation's base rates, the corporation must reconcile any previously unreconciled WSIRA revenues to ensure that revenues resulting from the WSIRA match as closely as possible the appropriate pretax revenues.

A corporation's filing of a petition to establish or change a WSIRA is not considered a request for a general increase in the corporation's base rates and charges. Nothing in this bill impairs the authority of the commission to review the prudence or eligibility of specific projects in the proposed WSIRA.

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

Department of Commerce and Insurance  
Department of Natural Resources  
Attorney General's Office  
Office of Administration  
Department of Transportation  
Missouri Department of Conservation  
Metropolitan St. Louis Sewer District  
Joint Committee on Administrative Rules



Julie Morff  
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January 21, 2020



Ross Strobe  
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January 21, 2020