

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4156-03
Bill No.: HCS for HB 2094
Subject: Utilities; Water Resources; Water Districts
Type: Original
Date: February 25, 2020

Bill Summary: This proposal modifies provisions relating to utilities.

FISCAL SUMMARY

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

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Public Service Commission Fund (0607)	\$0 to (\$225,506)	\$0 to (\$264,563)	\$0 to (\$267,058)
Other State Funds	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
Total Estimated Net Effect on <u>Other</u> State Funds	\$0 to (Greater than \$225,506)	\$0 to (Greater than \$264,563)	\$0 to (Greater than \$267,058)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 11 pages.

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

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Public Service Commission Fund (0607)	0 to 2.45 FTE	0 to 2.45 FTE	0 to 2.45 FTE
Total Estimated Net Effect on FTE	0 to 2.45 FTE	0 to 2.45 FTE	0 to 2.45 FTE

☒ 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
Local Government	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)

FISCAL ANALYSIS

ASSUMPTION

Sections 393.1500 - 393.1509 - 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 2 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 (.11 FTE), Chief Counsel (.25 FTE), and Legal Counsel (.09 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 \$225,506 in FY 2021, \$264,563 in FY 2022 and \$267,058 in FY 2023.

Officials from the **Office of Administration - Facilities Management Design and Construction (OA-FMDC)** assume 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.

Section 523.262 - Eminent Domain for Utility Purposes

Oversight assumes this proposal could impact the Grain Belt Express project in northern Missouri. According to a report by the Public Service Commission (File No. EM-2019-0150), the Grain Belt Express Project line is "sited to traverse Buchanan, Clinton Caldwell, Carroll, Chariton, Randolph, Monroe and Ralls Counties, Missouri. The Grain Belt Express Project covers approximately 780 miles, and the project will primarily use a pole design which has a smaller footprint than traditional alternating current transmission lines. The structures will occupy ten acres for the entire state of Missouri."

ASSUMPTION (continued)

The Joint Application of Invenergy Transmission LLC, Invenergy Investment Company LLC, Grain Belt Express Clean Line LLC and Grain Belt Express Holding LLC for an Order Approving the Acquisition by Invenergy Transmission LLC of Grain Belt Express Clean Line LLC was approved by the PSC effective June 30, 2019.

Oversight notes that this committee substitute narrows the scope of the bill by stating which entities are excluded from the new provisions. Oversight notes that while there may be no direct impact to the state or local governments as a result of this proposal, modifying provisions relating to the power of eminent domain for utility purposes could have an indirect impact on current and future utility projects.

Section 701.200 - Lead Testing in Certain Elementary School Buildings

Oversight assumes that because this bill permits schools to test drinking water for lead, and makes it subject to appropriation, this will have net \$0 direct fiscal impact to school districts, and \$0 or (Unknown) to state agencies depending upon the number of school districts that apply to be tested, the number of water sources tested, and the appropriation approved by the state.

Oversight notes, according to statistics from the Department of Elementary and Secondary Education, there are 1,228 elementary school buildings and 44 charter elementary school buildings in Missouri. Oversight does not have information regarding the ages of the buildings. Oversight notes testing could be conducted at several water sources within a single building.

Officials from the **Department of Commerce and Insurance - Office of Public Council**, the **Department of Natural Resources**, the **Missouri Department of Conservation**, the **Department of Transportation**, the **Department of Health and Senior Services** and the **Department of Elementary and Secondary Education** each assumed the proposal will have no fiscal impact on their respective organizations.

In response to a previous version, officials from the **Metropolitan St. Louis Sewer District** assumed the proposal would have no fiscal impact on their organization.

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 **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could require additional resources.

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, school districts and 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.

FISCAL IMPACT - State Government	FY 2021 (10 Mo.)	FY 2022	FY 2023
GENERAL REVENUE FUND			
Cost - Office of Administration	\$0 to	\$0 to	\$0 to
Potential increase in water and sewer utility costs §393.1500 - §393.1509	(Unknown, up to \$417,853)	(Unknown, up to \$417,853)	(Unknown, up to \$417,853)
Transfer out - §701.200			
Appropriation for school water testing	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	\$0 to (Unknown, up to \$417,853)	\$0 to (Unknown, up to \$417,853)	\$0 to (Unknown, up to \$417,853)
PUBLIC SERVICE COMMISSION FUND (0607)			
Cost - DCI - PSC §393.1500 - §393.1509			
Salaries	\$0 to (\$116,173)	\$0 to (\$140,801)	\$0 to (\$142,209)
Fringe Benefits	\$0 to (\$85,367)	\$0 to (\$103,003)	\$0 to (\$103,572)
Equipment and Expense	\$0 to (\$23,966)	\$0 to (\$20,759)	\$0 to (\$21,277)
Total Cost - DCI-PSC	\$0 to (\$225,506)	\$0 to (\$264,563)	\$0 to (\$267,058)
Total FTE Change - DCI-PSC	0 to 2.45 FTE	0 to 2.45 FTE	0 to 2.45 FTE
ESTIMATED NET EFFECT TO THE PUBLIC SERVICE COMMISSION FUND (0607)	\$0 to (\$225,506)	\$0 to (\$264,563)	\$0 to (\$267,058)
Estimated Net FTE Change to the Public Service Commission Fund (0607)	0 to 2.45 FTE	0 to 2.45 FTE	0 to 2.45 FTE

FISCAL IMPACT - State Government (continued)	FY 2021 (10 Mo.)	FY 2022	FY 2023
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OTHER STATE FUNDS

Cost - Various State Agencies	\$0 to	\$0 to	\$0 to
Potential increase in water and sewer utility costs §393.1500 - §393.1509	(Unknown)	(Unknown)	(Unknown)

ESTIMATED NET EFFECT TO OTHER STATE FUNDS	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
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FISCAL IMPACT - Local Government	FY 2021 (10 Mo.)	FY 2022	FY 2023
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LOCAL POLITICAL SUBDIVISIONS

Transfer in - From General Revenue Funds to school districts for water testing §701.200	Unknown	Unknown	Unknown
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Cost - School districts Water Testing §701.200	(Unknown)	(Unknown)	(Unknown)
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Cost - Local Governments	\$0 to	\$0 to	\$0 to
Potential increase in water and sewer utility costs §393.1500 - §393.1509	(Unknown)	(Unknown)	(Unknown)

ESTIMATED NET EFFECT TO LOCAL POLITICAL SUBDIVISIONS	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
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FISCAL IMPACT - Small Business

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

Small utility businesses and/or small businesses that are impacted by eminent domain could be impacted by this proposal.

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.

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.

FISCAL DESCRIPTION (continued)

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 act permits, subject to appropriations, each school district to test a sample of a source of potable water in a public school building in that district serving students under first grade and constructed before 1996 for lead contamination as specified in the act. The water samples may be submitted to a Department of Health and Senior Services-approved laboratory and the results of such testing may be submitted to the Department. If any of the samples tested exceed 5 parts per billion, the school district shall notify the parents or guardians of enrolled students. If the samples tested are less than or equal to 5 parts per billion, the district may notify parents individually or on the school's website.

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
Office of Administration
Department of Transportation
Missouri Department of Conservation
Office of the Secretary of State
Joint Committee on Administrative Rules
Department of Elementary and Secondary Education
Department of Natural Resources
Department of Health and Senior Services
Metropolitan St. Louis Sewer District



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