

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1168H.01I
Bill No.: HB 397
Subject: Water Resources and Water Districts; Waste - Solid; Sewers and Sewer Districts;
Utilities
Type: Original
Date: February 26, 2021

Bill Summary: This proposal modifies provisions for water and sewer infrastructure.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
General Revenue*	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
Total Estimated Net Effect on General Revenue	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)

* OA-FMDC assumes a potential increase in water/sewer utility bills if companies apply for a WSIRA. A 15% increase in water and sewer costs would be approximately \$417,852.99 in additional costs; however, since it is unknown what eligible projects these 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 cost.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Public Service Commission Fund (0607)	\$0 to (\$282,309)	\$0 to (\$334,064)	\$0 to (\$337,342)
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 (\$282,309))	\$0 to (Greater than (\$334,064))	\$0 to (Greater than (\$337,342))

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Public Service Commission Fund (0607)	0 to 3.28 FTE	0 to 3.28 FTE	0 to 3.28 FTE
Total Estimated Net Effect on FTE	0 to 3.28 FTE	0 to 3.28 FTE	0 to 3.28 FTE

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

☐ Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
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 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, they 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, they 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 \$282,309 in FY 2022, \$334,064 in FY 2023 and \$337,342 in FY 2024.

Officials from the **Department of Commerce and Insurance – Office of Public Council** assume this legislation would increase the workload of the OPC staff because it will require review of up to two additional annual filings for each large water company, with a greatly expanded base of eligible project costs to be reviewed in each petition. A fiscal impact on the OPC is not anticipated. However, should the extent of the work be more than anticipated, the department would request additional appropriation and/or FTE through the budget process.

Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for the Office of Public Council.

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 393.1506 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.

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 cost to the General Revenue Fund, other state funds and local political subdivisions.

Officials from the **Attorney General's Office**, the **Department of Natural Resources**, the **Missouri Department of Conservation**, the **Department of Transportation**, the **Metropolitan St. Louis Sewer District**, the **High Point Elementary School**, the **Lexington Water/Wastewater District**, the **Little Blue Valley Sewer District**, the **Platte County Pwsd**, the **Stone County Pwsd**, the **City of Springfield** and the **Wayne County Pwsd** each assume 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.

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 2022 (10 Mo.)	FY 2023	FY 2024
GENERAL REVENUE FUND			
<u>Cost - Office of Administration</u> Potential increase in water and sewer utility costs	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>

PUBLIC SERVICE COMMISSION FUND (0607)			
Cost - DCI - PSC			
Salaries	\$0 to (\$168,337)	\$0 to (\$204,025)	\$0 to (\$206,065)
Fringe Benefits	\$0 to (\$89,450)	\$0 to (\$108,022)	\$0 to (\$108,710)
Equipment and Expense	<u>\$0 to (\$24,522)</u>	<u>\$0 to (\$22,017)</u>	<u>\$0 to (\$22,567)</u>
Total Cost - DCI-PSC	<u>\$0 to (\$282,309)</u>	<u>\$0 to (\$334,064)</u>	<u>\$0 to (\$337,342)</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 (\$282,309)</u>	<u>\$0 to (\$334,064)</u>	<u>\$0 to (\$337,342)</u>
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
OTHER STATE FUNDS			
Cost - Various State Agencies			
Potential increase in water and sewer utility costs	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>
ESTIMATED NET EFFECT TO OTHER STATE FUNDS	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>

LOCAL POLITICAL SUBDIVISIONS	FY 2022 (10 Mo.)	FY 2023	FY 2024
<u>Cost</u> - Local Governments 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>
ESTIMATED NET EFFECT TO LOCAL POLITICAL SUBDIVISIONS	<u>\$0 to</u> <u>(Unknown)</u>	<u>\$0 to</u> <u>(Unknown)</u>	<u>\$0 to</u> <u>(Unknown)</u>

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

This act creates provisions relating to water and sewer infrastructure.

COMPETITIVE BIDDING (Section 393.358): Currently, water corporations with more than 1,000 customers are required to use a competitive bidding process for no less than 10% of the corporation's external expenditures for planned infrastructure projects on the water corporation's distribution system. Under this act, such competitive bidding process shall be used for 20% of the corporation's external expenditures for such projects.

WATER AND SEWER INFRASTRUCTURE RATE ADJUSTMENT (Sections 393.1500-393.1509):

The act establishes the Missouri Water and Infrastructure Act, which specifies that a water or sewer corporation that provides water or sewer service to more than 8,000 customer connections 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 system projects. The WSIRA and any future changes must meet specific requirements set forth in the act.

The Commission shall not approve a WSIRA for a water or sewer corporation that has not had a general rate proceeding decided or dismissed in the 3 years before the filing of a WSIRA petition unless the water or sewer corporation has filed for or is the subject of a new general rate proceeding.

At the time the water or sewer corporation files a petition for a WSIRA, it shall submit proposed WSIRA rate schedules and supporting documentation, and the corporation shall also serve the Office of Public Counsel with a copy of the petition, rate schedules, and documentation. Upon the filing of a petition, the Commission shall conduct an examination of the proposed WSIRA, as specified in the act. 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 set forth in the act, the Commission shall enter an order authorizing the water or sewer corporation to implement the WSIRA. A corporation may petition the Commission for a change in its WSIRA no more than two times in every 12-month period.

The act lists what 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 is not provided such information on an agreed-upon basis, the Commission shall use the last authorized overall pretax weighted average cost of capital in a general rate proceeding for the water or sewer corporation. At the end of each 12-month calendar year that a WSIRA is in effect, the corporation shall 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 water or sewer corporation that has a WSIRA shall 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 the water or sewer corporation's base rates, the corporation shall reconcile any previously unreconciled WSIRA revenues to ensure that revenues resulting from the WSIRA match as closely as possible the appropriate pretax revenues.

A water or sewer 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.

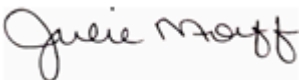
Commission approval of a petition to establish or change a WSIRA shall in no way be binding upon the Commission in determining the ratemaking treatment to be applied to eligible infrastructure system projects during a subsequent general rate proceeding when the Commission may undertake to review the prudence of such costs. If, during a subsequent general rate proceeding, the Commission disallows recovery of costs associated with eligible infrastructure system projects previously included in a WSIRA, the water or sewer corporation shall offset its WSIRA in the future as necessary to recognize and account for any such over collections.

Nothing in the act impairs the authority of the Commission to review the reasonableness of the rates or charges of a water or sewer corporation, including review of the prudence of eligible infrastructure system replacements made by a water or sewer corporation.

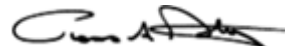
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Attorney General's Office
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
High Point Elementary School
Lexington Water/Water Waste District
Little Blue Valley Sewer District
Platte County Pwsd
City of Springfield
Stone County
Wayne County Pwsd



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