

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 7229H.011
 Bill No.: HB 3320
 Subject: Water Resources and Water Districts; Department of Natural Resources; Public Service Commission; Attorney General
 Type: Original
 Date: April 15, 2026

Bill Summary: This proposal creates provisions relating to the regulation of community water systems.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND

FUND AFFECTED	FY 2027	FY 2028	FY 2029
General Revenue*	Could Exceed (\$515,193)	Could Exceed (\$553,497)	Could Exceed (\$564,567)
Total Estimated Net Effect on General Revenue	Could Exceed (\$515,193)	Could Exceed (\$553,497)	Could Exceed (\$564,567)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS

FUND AFFECTED	FY 2027	FY 2028	FY 2029
Natural Resources Protection - Water Pollution Permit Fee Subaccount Fund (1568)*	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
Water And Wastewater Loan Revolving Fund (1602)*	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
Total Estimated Net Effect on Other State Funds	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)

*Oversight assumes the net effect is from Community Water Systems unable to make payments due to receiving a grade of "D or F" Oversight assumes that the fiscal impact could exceed the \$250,000 threshold. Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS

FUND AFFECTED	FY 2027	FY 2028	FY 2029
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)

FUND AFFECTED	FY 2027	FY 2028	FY 2029
General Revenue	5 FTE	5 FTE	5 FTE
Total Estimated Net Effect on FTE	5 FTE	5 FTE	5 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 2027	FY 2028	FY 2029
Local Government	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown

FISCAL ANALYSIS

ASSUMPTION

§640.138 - The Drinking Water Transparency and Accountability Act

Officials from the **Department of Natural Resources (DNR)** state the following:

§640.138.2(1)

The bill's definition of "community water system" is different than both the established federal and state regulatory definitions. Under the bill's definition, the department estimates that 1,550 water systems would be impacted by the requirements of the bill, including some noncommunity systems that do not meet the current regulatory definition of a community water system and excluding some currently regulated community water systems that would not meet the definition of a community water system as defined in this bill.

§640.138.3

To fairly evaluate community water systems as required by this bill, new regulatory reporting requirements will have to be put in place for water system financial sustainability as existing department requirements related to these items do not currently apply to all community water systems.

New data systems or modifications to existing data systems will be required to track all required elements of the bill that will generate a customized grade for each system.

The bill will require the department to develop or enhance an existing database to accommodate the requirements of the bill. While the department has a primary database to capture existing violations of state and federal regulations, the bill would require additional tracking of items not currently captured such as rate studies, audits, grade scores, appeals, suspension of grade scores, systems under receivership, tracking of additional reports and approvals, and data on systems that are receiving state or federal funding from non-department sources. This will require new or enhanced database development as the current database was developed to primarily capture federally required information and will have limitations preventing expansion to capture all required items.

The department will also need to develop customized reports generated from the data system or systems utilized for this tracking to make the custom assessment reports for each system. The department has an existing contract in place for our primary drinking water database and IT support for additional add on tools used to make customized letters and reports. One tool utilized under this contract generates draft Consumer Confidence Reports (CCR) for community systems that meet the federal CCR requirements. The requirement to add the grade score to the CCRs will require the department to modify the database to capture that information and to customize the programming needed to populate those report templates.

Without having regulations developed to know all information to be tracked and specifications for the final build of the system, it is difficult to estimate the cost for the final database build. It is estimated the cost to develop or enhance a database to capture all required information, to develop customized reports to extract that information, to make customized grade cards for each system, and to modify the report format for Consumer Confidence Reports is unknown.

The department will need an Associate Research/Data Analyst position that can manage new information that must be collected, entered, and retrieved from department data systems to implement the requirements of §640.138.3 of the bill. The bill requires the department to establish a letter grade for each community water system to measure the system's "quality, performance, and sustainability" based on violations of federal and state drinking water laws, the system's financial sustainability, the system's operation and maintenance performance history, and infrastructure violations. This will require the department to track and manage data from multiple databases to ensure monitoring records, permitting records, inspection records, fee payments, complaint logs, and financial reporting information is all adequately assessed and factored into the grading system. This position will be responsible for managing the data associated with any new reporting developed pursuant to this bill and for developing the queries needed to pull information together from multiple tracking systems so that a draft report card is reflective of all scored elements and can be evaluated by the technical team with primary responsibility for implementing the bill requirements.

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Without having regulations developed to know all information to be tracked and specifications for the final build of the system, it is difficult to estimate the cost for the final database build. It is estimated the cost to develop or enhance a database to capture all required information, to

develop customized reports to extract that information, to make customized grade cards for each system, and to modify the report format for CCRs is unknown.

Upon further inquiry, the **DNR** states that the department does not know what the impact would be, it has not yet been determined if this would be a full ITSD build, full contract build or enhancement to current systems.

The DNR further stated that without knowing the associated costs of the database development/enhancements, they cannot determine if the Safe Drinking Water Fund (1679) would be able to fund the database development/enhancements

§640.138.4

DNR assumes this section creates a statewide grading system (A-F) for community water systems as defined in the bill. It assesses quality, performance, and sustainability, requiring annual public posting of grades and allowing systems to appeal scores.

The department will need an Accountant position with knowledge and the ability to apply Generally Accepted Accounting Principles (GAAP) to perform annual reviews of each community water system's financial sustainability. The Accountant position will examine rate studies, review financial reports and audit findings, and make expenditure determinations regarding community water systems that received a "D" or "F" grade.

The department will need an Environmental Program Analyst position to review operation and maintenance performance history for all community public water systems as required by 640.138.3(4). The Environmental Program Analyst position will complete technical and managerial review for each community water system, calculate point deductions, implement the department's process by which community water systems can review and appeal the department's scores and grades prior to website publication, track and review improvement and sustainability plans for community public water systems with a "D" or "F" letter grade, and provide training and compliance assistance to systems regarding the new bill requirements and implementation.

The department will need an Environmental Program Analyst position to address the requirements of 640.138.5 and 6. It is expected that this bill will increase the number of systems out of compliance with state laws and regulations and therefore the number of violations issued to these systems by the department and the number of active enforcement cases. This is due to the additional review this bill will require the department to conduct community system financial sustainability information. This position will serve as a case manager for any formal enforcement actions that are required. The department assumes that formal enforcement actions such as negotiating administrative orders on consent or the issuance of unilateral orders will be necessary to require corrective actions or to assess penalties for noncompliance for systems with a "D" or "F" letter grade. This position will submit required notifications to the Safe Drinking Water Commission and Public Service Commission, prepare referrals to the Attorney General's Office to seek court appointed receivers or fiscal administrator and to mandate safe water purchase from another system when necessary.

The department estimates 10 percent of Missouri community water systems may receive a “D” or “F” letter grade based on the requirements of 640.138.3. and 640.138.4 and is using that estimate to establish the level of effort needed to implement activities required by the bill for those systems.

§640.138.6

The department states that a revenue loss would be unknown as it is unknown how many communities would receive a “D” or “F” grade and would also then have debt payments due to the department that were secured by bonds post August 28, 2026, and would then be missed until the community is able to make the improvements necessary to the system to raise their grade.

The legislation states that no local governing authority that operates a community water system that receives a “D” or “F” shall expend any money raised through payments made by customers for access to water or from any other water system revenue for any item, debt payment or public purpose other than the improvement and sustainability of the community water system specifically related to the point deductions or letter grade standards under this section. The legislation does allow that provisions of this subsection shall not be construed to prohibit the payment of bonded indebtedness secured by the water system's revenue prior to August 28, 2026.

If a community is awarded a loan of bonded indebtedness from the department post August 28, 2026, and then falls into the “D” or “F” category, the community would not be able to make debt payments to the department due to the rule. This would cause a fiscal impact and affect state revenues as expected payments would not be received and would cause the community to be in default of their bond and loan.

Upon further inquiry, the **DNR** states that the revenue loss referenced in §640.138(6) would be to the Natural Resources Protection - Water Pollution Permit Fee Subaccount Fund (1568) and to the Water and Wastewater Loan Revolving Fund (1602).

Oversight will show a \$0 (no communities receive a “D or F” grade) or an unknown revenue loss to both the Natural Resources Protection - Water Pollution Permit Fee Subaccount Fund (1568) and to the Water and Wastewater Loan Revolving Fund (1602). Oversight assumes that the fiscal impact could exceed the \$250,000 threshold.

§640.138.9

The **DNR** states that this section calls for community water systems receiving federal funds for the upgrade, repair, or otherwise replacement of water system infrastructure to submit to the department a detailed plan describing how the federal funds will be used.

The **DNR** further states that the additional work of receiving these detailed plans and coordinating with communities to receive these plans and review grades to be sure the plans are addressing needs would take one additional Environmental Program Analyst.

DNR Summary of Impact:

Revenue Loss - \$0 to unknown

Database build - \$0 to unknown

Three (3) Environmental Program Analysts \$73,788 (\$67,080 base pay plus \$6,708 time of service pay)*

One (1) Accountant \$73,788 (\$67,080 base pay plus \$6,708 time of service pay)*

One (1) Associate Research/Data Analyst \$61,908 (\$56,280 base pay plus \$5,628 time of service pay)*

*associated fringe and indirect costs are not included

Oversight, for fiscal note purposes, will reflect the database build and the 5 FTE as provided by the DNR to General Revenue.

Officials from the **Office of Attorney General (AGO)** assume any potential litigation costs arising from this proposal can be absorbed with existing resources. The AGO may seek additional appropriations if the proposal results in a significant increase in litigation or investigation costs.

Oversight does not have any information to the contrary. Therefore, Oversight assumes the AGO will be able to perform any additional duties required by this proposal with current staff and resources and will reflect no fiscal impact to the AGO for fiscal note purposes.

Oversight notes that violations of section §640.138.5(1)(a) could result in fines or penalties. Oversight also notes per Article IX Section 7 of the Missouri Constitution fines and penalties collected by counties are distributed to school districts. Fines vary widely from year to year and are distributed to the school district where the violation occurred. Oversight will reflect a positive fiscal impact of \$0 to Unknown to local school districts. For simplicity, Oversight will not reflect the possibility that fine revenue paid to school districts may act as a subtraction in the foundation formula.

Officials from the **Department of Commerce and Insurance, Office of the State Public Defender, Office of the State Courts Administrator, Metropolitan St. Louis Sewer District - 7B Sewer, South River Drainage District - 7D Levee, and Wayne County PWS#2** each assume the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

Oversight only reflects the responses that we have received from state agencies and political subdivisions; however, other local utilities were requested to respond to this proposed legislation but did not. Upon the receipt of additional responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval to publish a new fiscal note. A general listing of political subdivisions included in our database is available upon request.

Rule Promulgation

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

Officials from the **Office of the Secretary of State (SOS)** note 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 its 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.

<u>FISCAL IMPACT – State Government</u>	FY 2027 (10 Mo.)	FY 2028	FY 2029
GENERAL REVENUE			
<u>Cost – DNR (§640.138) For database modification/enhancements p.3-4</u>	(Unknown)	(Unknown)	(Unknown)
<u>Cost – DNR (§640.138) p.3-6</u>			
Personal Service	(\$270,500)	(\$331,092)	(\$337,714)
Fringe Benefits	(\$162,895)	(\$199,384)	(\$203,371)
Equipment and Expense	(\$81,798)	(\$23,021)	(\$23,482)
<u>Total Costs - DNR</u>	<u>(\$515,193)</u>	<u>(\$553,497)</u>	<u>(\$564,567)</u>
FTE Change - DNR	5 FTE	5 FTE	5 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE	Could Exceed <u>(\$515,193)</u>	Could Exceed <u>(\$553,497)</u>	Could Exceed <u>(\$564,567)</u>
Estimated Net FTE Change to General Revenue	5 FTE	5 FTE	5 FTE

<u>FISCAL IMPACT – State Government</u>	FY 2027 (10 Mo.)	FY 2028	FY 2029
NATURAL RESOURCES PROTECTION - WATER POLLUTION PERMIT FEE SUBACCOUNT FUND (1568)			
<u>Revenue Loss</u> – (\$640.138.6) Community Water Systems unable to make payments due to receiving a grade of “D or F” p.5-6	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>
ESTIMATED NET EFFECT ON THE NATURAL RESOURCES PROTECTION - WATER POLLUTION PERMIT FEE SUBACCOUNT FUND	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>
WATER AND WASTEWATER LOAN REVOLVING FUND (1602)			
<u>Revenue Loss</u> – (\$640.138.6) Community Water Systems unable to make payments due to receiving a grade of “D or F” p.5-6	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>
ESTIMATED NET EFFECT ON THE WATER AND WASTEWATER LOAN REVOLVING FUND	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2027 (10 Mo.)	FY 2028	FY 2029
LOCAL POLITICAL SUBDIVISIONS			
<u>Revenue Gain – School Districts</u> <u>(§640.138.5(1)) Potential Penalties p.7</u>	<u>\$0 or Unknown</u>	<u>\$0 or Unknown</u>	<u>\$0 or Unknown</u>
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>\$0 or Unknown</u>	<u>\$0 or Unknown</u>	<u>\$0 or Unknown</u>

FISCAL IMPACT – Small Business

The bill may limit the department’s ability to fund a project with a community. To that end it could limit funding to consulting engineering firms, financial advisors, and contractors. Failure to deliver these projects could also limit local economic activity and growth in the local community.

There are small businesses that meet the definition of a community water system as defined in this bill. This could include water systems serving mobile home parks, subdivisions, or condominiums. The small businesses impacted by the bill may be subject to additional reporting requirements established by the bill or its implementing regulations. Those systems who receive a D or F rating may also be subject to the consequences and penalties identified in the bill including administrative penalties, procuring the cost of an auditor to provide oversight of any state or federal funds received, and limitations on incurring any additional debt for anything not directly related to improving water system infrastructure.

FISCAL DESCRIPTION

The bill establishes "The Drinking Water Transparency and Accountability Act", which requires the Department of Natural Resources to create a statewide system of accountability for community water systems and establish, by rule, a letter grade schedule to include community water system quality, performance, and sustainability based on the standards set forth in the bill. The Department must promulgate rules for clear and appropriate explanation for each such standard and create a tiered structure of point deductions that utilizes the violation metrics specified in the bill. The Department will assign community water systems a letter grade between "A" and "F". The rules can not deduct points for water outage or boil advisories.

For water corporations, the Department must use data provided by the water corporation in its most recent general rate case within the past three years.

The Department will publish scores and letter grades earned by each community water system on its website on an annual basis. It also must establish rules by which a community water system

can review and appeal the Department's scores prior to website publication. Requirements and penalties for each letter classification that a community water system receives from the Department are specified in the bill.

For any violation of the provisions of the bill, upon a petition from the Department, a court may appoint a receiver or fiscal administrator, may order a mandatory safe water purchase from another system. The duties of a receiver, if appointed, are specified in the bill.

The Department must publish the first letter grade no later than January 1, 2028.

A community water system receiving Federal funds for the upgrade, repair, or replacement of the water system infrastructure must submit to the Department a detailed plan describing how the Federal funds will be used.

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
Office of the Secretary of State
Office of the State Public Defender
Office of the State Courts Administrator
Joint Committee on Administrative Rules
Metropolitan St. Louis Sewer District - 7B Sewer
South River Drainage District - 7D Levee
Wayne County PWSD #2



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April 15, 2026



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