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## Capital Budget Committee

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### HB 1141

**Brief Description:** Establishing a water pollution control revolving loan administration charge.

**Sponsors:** Representatives Smith, Tharinger, Short, Hunt, Stanford, Warnick and Ryu; by request of Department of Ecology.

#### Brief Summary of Bill

- Authorizes the Department of Ecology to assess an administration charge on loans issued under the State Water Pollution Control Revolving Fund Loan program.
- Creates a Water Pollution Control Revolving Administration Account in the State Treasury.

**Hearing Date:** 1/28/13

**Staff:** Meg Van Schoorl (786-7105).

#### Background:

The Water Pollution Control Revolving Fund Loan program was established by Congress under the federal Clean Water Act. Known also as the Clean Water State Revolving Fund (SRF), it is managed jointly with the Centennial Clean Water Grant program by the Department of Ecology (Ecology).

The SRF provides low-interest loans to cities, counties, special purpose districts, federally-recognized Indian tribes, and other public bodies to plan, design, construct and improve water pollution control facilities such as wastewater treatment plants, main sewers, and storm water control projects. Borrowers are required to repay the loans and the repayments are deposited into the SRF to be made available for future loans.

The standard interest rate on a 20-year SRF loan is calculated based on 60 percent of the average market rate for tax-exempt municipal bonds. The standard interest rate that will be charged on

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loans made in FY 2014 is 2.3 percent. The SRF program also has the authority to issue subsidized loans and forgivable principal loans in hardship cases.

The SRF Loan program receives funding from four sources: loan repayments; an annual capitalization grant from the Environmental Protection Agency (EPA); a required 20 percent state match appropriated by the Legislature; and interest earnings on State Treasury investments.

The 2011-13 capital budget appropriation for the SRF Loan program is \$192 million, of which \$110 million is from loan repayments and the state match, and \$82 million is from the EPA capitalization grant. Federal law prohibits the use of loan repayments for administration, but Ecology may use up to four percent of the EPA capitalization grant to cover its SRF administrative costs.

The current SRF Loan program portfolio is \$1.2 billion, with 96 loans in the disbursement and negotiation phase, and 265 loans in repayment status.

### **Summary of Bill:**

#### Administration Charge Authorized.

Ecology is authorized to assess an administration charge for loans issued under the SRF Loan program in order to predictably and adequately fund Ecology's administrative costs. The administration charge rate may not exceed one percent of the loan amount and will be assessed as a portion of the debt service on each loan at the point the loan enters repayment status. Loans carrying an interest rate less than the administration charge rate will be exempted from the charge.

#### Account Created in the State Treasury.

A Water Pollution Control Revolving Administration Account (Account) is created in the State Treasury. All receipts from the administration charge, as well as other revenues from gifts, grants or bequests pledged for SRF Loan program administration, are to be deposited in the Account. Moneys from the Account may be spent only after appropriation. The State Treasurer is authorized to invest Account revenues and must credit the Account with its proportionate share of investment earnings.

#### Expenditure of Moneys in the Account.

Each biennium, Ecology may spend from the Account an amount that is no more than four percent of the new capital appropriation. Moneys in the Account are to be used for: staffing the management of the SRF Loan program; administering loans and collecting loan repayments; information and data systems used to track and manage the SRF; and other associated costs of the SRF Loan program administration.

Each biennium, Ecology must compare its costs, including working capital reserves, against the amount in the Account. If Ecology determines that there is an excess balance in the Account, it must request that the excess be transferred from the Account to the SRF for the next biennium and used for issuing loans.

Beginning with its 2017-19 biennial operating budget submittal and thereafter, Ecology must compare the SRF Loan program administration costs with the administration charge income, and adjust the administration charge rate to ensure adequate funding of the program.

Accountability.

By December 1, 2018, Ecology must report to legislative fiscal committees on implementation of the administration charge.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.