HOUSE BILL REPORT
HB 1141

As Reported by House Committee On:
Capital Budget

Title: An act relating to establishing a water pollution control revolving loan administration charge.

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 History:
Committee Activity:
Capital Budget: 1/28/13 [DPS].

Brief Summary of Substitute Bill

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

HOUSE COMMITTEE ON CAPITAL BUDGET

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 10 members: Representatives Dunshee, Chair; Stanford, Vice Chair; Warnick, Ranking Minority Member; Hawkins, Assistant Ranking Minority Member; Appleton, Fey, MacEwen, Riccelli, Smith and Stonier.

Minority Report: Do not pass. Signed by 1 member: Representative Scott.

Staff: Meg Van Schoorl (786-7105).

Background:

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

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) program, it is managed jointly with the Centennial Clean Water Grant program by the Department of Ecology (Ecology).

The SRF program 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 loans made in fiscal year 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 program receives funding from four sources: (1) loan repayments; (2) an annual capitalization grant from the Environmental Protection Agency (EPA); (3) a required 20 percent state match appropriated by the Legislature; and (4) interest earnings on State Treasury investments.

The 2011-13 capital budget appropriation for the SRF 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 4 percent of the EPA capitalization grant to cover its SRF program administration costs.

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

Summary of Substitute Bill:

Administration Charge Authorized.
Ecology is authorized to assess an administration charge for loans issued under the SRF program in order to predictably and adequately fund Ecology's administrative costs. The administration charge rate may never exceed 1 percent on the declining principal loan balance 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 exempt from the charge. Administration charges on loans in repayment status will be assessed after the law takes effect and associated rule changes are adopted.

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 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 4 percent of the new capital appropriation. Moneys in the Account are to be used for: administration costs associated with conducting application processes; managing contracts; collecting loan repayments; managing the SRF; providing technical assistance; meeting state and federal reporting requirements; and information and data system costs associated with loan tracking and fund management.

Beginning in its 2017-19 operating budget submittal, Ecology must compare the projected balance in the Account and the projected income from the administration charge with the projected program administration costs, including an adequate working capital reserve approved by the Office of Financial Management (OFM). Ecology must then determine whether its administration charge rate must be increased, decreased, or remain unchanged, and whether there is an excess balance in the Account that must be transferred to the SRF to be used for loans. At the point when the Account adequately covers the costs of program administration, Ecology must use any federal capitalization dollars it receives to make loans.

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

Substitute Bill Compared to Original Bill:

Administration charges on loans in repayment status will be assessed after the law takes effect and associated rule changes are adopted. Administration charges may never exceed 1 percent on the declining principal loan balance. Uses of moneys in the Account are made more explicit. Ecology is required, beginning in its 2017-19 operating budget submittal, to compare the projected balance in the Account and the projected income from the administration charge with the projected program administration costs, including an adequate working capital reserve approved by the OFM. Ecology must then determine whether its administration charge rate must be increased, decreased, or remain unchanged, and whether there is an excess balance in the Account that must be transferred to the SRF to be used for loans. At the point when the Account adequately covers the costs of program administration, Ecology must use any federal capitalization dollars it receives to make loans.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of the session in which the bill is passed. However, section 4 relating to allowing the new account to retain its interest takes effect if, by December 31, 2015, the Secretary of the Department of Transportation provides certification to the Governor regarding sufficient funding authority for the Columbia River Crossing Project and execution of an agreement or agreements regarding toll setting.

Staff Summary of Public Testimony:

(In support) This is a good-government bill that will provide Ecology with the management resources to keep the loan funds revolving in perpetuity. The SRF program is one of the best programs the state offers. In addition to the financial assistance, Ecology's staff provides technical assistance that helps small counties and cities with water quality problems. Ecology needs a predictable revenue stream for program administration. The federal capitalization grants are an unstable fund source. They fluctuate greatly from one year to the next; they are expected to decrease by 8.5 percent in this next year, and Ecology's program administration will be in a deficit position this year. The proposed substitute bill is stronger, clearer and more defined than the original bill. It addresses concerns our members had and they are very comfortable with it.

(Opposed) None.

Persons Testifying: Representative Smith, prime sponsor; Don Seeberger and Jeff Nejedly, Department of Ecology; and Ed Thorpe, Coalition for Clean Water.

Persons Signed In To Testify But Not Testifying: None.