

Individual State Agency Fiscal Note

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|------------------------------|--|--|
| Bill Number: Z-0043.1 | Title: SRF Loan Administration Charge | Agency: 461-Department of Ecology |
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Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

| ACCOUNT | FY 2014 | FY 2015 | 2013-15 | 2015-17 | 2017-19 |
|---|-----------|-----------|-----------|-----------|---------|
| Water Pollution Control Revolving Administration-State NEW-1 | 1,173,770 | 1,523,000 | 2,696,770 | 3,187,982 | |
| Total \$ | 1,173,770 | 1,523,000 | 2,696,770 | 3,187,982 | |

Estimated Expenditures from:

| | FY 2014 | FY 2015 | 2013-15 | 2015-17 | 2017-19 |
|---|---------|---------|---------|---------|---------|
| FTE Staff Years | 0.6 | 0.6 | 0.6 | 0.6 | 0.0 |
| Account | | | | | |
| Water Pollution Control Revolving Administration-State NEW-1 | 39,491 | 39,491 | 78,982 | 78,982 | 0 |
| Total \$ | 39,491 | 39,491 | 78,982 | 78,982 | 0 |

Estimated Capital Budget Impact:

| | 2013-15 | | 2015-17 | | 2017-19 | |
|-----------------|----------------------|----------------------|----------------------|----------------------|------------|------------|
| | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 | FY 2019 |
| Acquisition | 0 | 0 | 0 | 0 | 0 | 0 |
| Construction | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | (1,173,770) | (1,523,000) | (1,593,991) | (1,593,991) | 0 | 0 |
| Total \$ | \$(1,173,770) | \$(1,523,000) | \$(1,593,991) | \$(1,593,991) | \$0 | \$0 |

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates,

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

| | | |
|------------------------------------|---------------------|------------------|
| Legislative Contact: | Phone: | Date: 08/22/2012 |
| Agency Preparation: Kimberly Wagar | Phone: 360-407-6614 | Date: 08/22/2012 |
| Agency Approval: Erik Fairchild | Phone: 360-407-7005 | Date: 08/22/2012 |
| OFM Review: | Phone: | Date: |

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Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

Background: Congress established the Federal Clean Water State Revolving Fund under the federal Clean Water Act to provide low interest loans to local governments for high priority water quality protection and improvement projects. These funds are used for planning, designing, acquiring, constructing, and improving water pollution control facilities, and for related activities that help meet state and federal water pollution control requirements. The value, since inception, of Washington's State Revolving Fund loan portfolio exceeds \$1.225 billion. In FY 2013, the State Revolving Fund loan program has 265 loans in repayment and 96 loans in disbursement and in loan agreement negotiations.

The State Revolving Fund is funded by an annual U.S. Environmental Protection Agency (EPA) capitalization grant (based on changing Congressional appropriations); state matching funds; and principal and interest repayments on past State Revolving Fund loans. Ecology is allowed to use up to four percent of the EPA capitalization federal dollars to cover its costs for State Revolving Fund administration. The Clean Water Act does not allow Ecology to use any principal and interest repayments for State Revolving Fund administration. (A separate administrative charge, distinct from interest, is allowed as part of the debt service on the loan.)

During the last several biennia, there has been a downward trend in annual EPA capitalization grant award levels. The current capitalization grant award level only covers approximately 60 percent of the annual State Revolving Fund administrative cost. Based on discussions with EPA and historical trends, Ecology estimates a likely reduction of 25 percent per year in the capitalization grant, with the possible elimination of the grant after FY 2015. If that trend remains unchanged, Ecology will be unable to cover the cost of State Revolving Fund administration by state Fiscal Year 2014 (see Table B, attached).

This bill would authorize a State Revolving Fund loan administration charge, which would ultimately replace EPA administrative funds, after Congress eliminates the EPA capitalization grants. This bill, along with the operating decision package request PL AJ State Revolving Fund Admin Charge for temporary gap funding, would enable ongoing funding to administer the State Revolving Fund loan program and in turn, enable the ongoing operation of the State Revolving Fund loan program.

Section 1 would amend RCW 90.50A.010 to define "debt service" as the total of all principal, interest, and charges associated with an SRF loan that must be repaid to the department by the borrower.

Section 2 would be added to RCW 90.50A creating the Water Pollution Control Revolving Administration Account. This new section would authorize the department to establish administration charges as a portion of the debt service for loans issued under the SRF. Section 2(2) would exempt loans with an interest rate below the established rate for the administrative charge. Section 2(5) describes what the Water Pollution Control Revolving Administration Account could be used for. Section 2(6) would limit the administration costs at up to four percent of the SRF biennial capital budget appropriation. For example, the 2011-13 enacted capital budget appropriation for SRF is \$184,205,000. A four percent cap equates to a biennial administration budget of no more than \$7,368,200. Ecology would be required to evaluate its administration needs each biennium based on actual workload, program requirements, and ongoing business needs, and determine whether it had an excess balance. That excess balance would have to be returned to the SRF for

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water quality improvement projects.

Section 3 would reenact and amend RCW 43.84.092 to direct the State Treasurer to provide the newly authorized Water Pollution Control Revolving Administration Account its proportionate share of investment earnings based upon the account's average daily balance for the period.

This fiscal note assumes:

- o The State Revolving Fund loan program would continue in perpetuity based on Clean Water Act requirements, despite reductions or termination of the federal capitalization grant.
- o Ecology would not impose an increased repayment burden on local governments; Ecology would reduce the nominal interest rate to make up for the amount of the new charge.

The following is the assumed schedule of key events:

- o April 2013: Legislature passes and Governor signs administration charge legislation.
- o May 2013: Ecology begins Rulemaking to implement the State Revolving Fund administration charge.
- o June - August 2013: Conduct rulemaking process to establish the administration charge on State Revolving Fund loans that have not yet entered repayment.
- o September 2013: End of comment period on proposed rule.
- o November 2013: Adopt permanent rule amendments for the administrative charge.
- o December 2013: Begin collecting the charge on semiannual loan repayments.
- o July 2014: Last federal capitalization grant received from EPA for FY 2015 (estimate).

Ecology would begin collecting loan administration charges to be deposited in the new administration account starting in December of 2013, following the completion of rule making. Ecology estimates that \$235,190 would be collected during the remainder of Fiscal Year 2014. As described in Cash Receipts below, this amount would grow as the administrative charge would continue to phase in.

PLEASE NOTE the related operating budget decision package request PL AJ State Revolving Fund Admin Charge for temporary gap funding for the Water Pollution administrative charge: As Table B illustrates, the new State Revolving Fund loan administration charge would not fully cover program administrative costs until Fiscal Year 2018. Gap funding is requested from the State Toxics Control Account for the projected deficits as follows: \$189,648 in Fiscal Year 2014, \$249,846 in Fiscal Year 2015, \$420,221 in Fiscal Year 2016, and \$70,991 in Fiscal Year 2017, for total gap funding of \$439,494 in the 2013-15 biennium, and \$491,202 in the 2015-17 biennium.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

As described above, Section 2 would authorize the department to collect an administration charge as a portion of the debt service for loans issued under the water pollution control revolving fund. Ecology would be required to evaluate its administration needs each biennium based on actual workload, program requirements, and ongoing business needs, and

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determine whether it had an excess balance. That excess balance would have to be returned to the Water Pollution Control Revolving Fund for water quality improvement projects.

Revenue Assumptions: Ecology would not increase the debt service (cost to borrowers) beyond what the borrower would otherwise pay under current law. Total revenue would not change, i.e. revenue that would go into the new account would no longer go into the Water Pollution Control Revolving Account -State. Right now, the SRF loan debt service for a standard 20-year loan has its interest rate set at 60 percent of the average market rate for tax-exempt municipal bonds. Ecology would lower the interest rate on a loan and add a loan administration charge. The interest charged and the administration charge would comprise part of the debt service of the loan and together would not exceed 60 percent of the rate for tax-exempt municipal bonds. This bill would exempt loans with interest rates below the established administrative rate.

All charge collection estimates assume the Water Pollution Control Revolving Administration charge legislation would become effective once rulemaking is complete. Ecology would complete rule making by November 30, 2013. Estimates assume that loans entering repayment after November 30, 2013, would be subject to the loan administration charge.

Ecology based the revenue estimates on current loans in Ecology's Loan Tracking System (ELTS) that are expected to enter repayment December 1st, 2013 and beyond.

Ecology compounds interest on State Revolving Fund loans monthly. Ecology would calculate the new Water Pollution Control Revolving administration charge by compounding the charges monthly and collecting the charges at the same time as the principal and interest payments for the State Revolving Fund loans. We estimate that Ecology would collect \$235,190 in Fiscal Year 2014. We determine this by taking the value of loans projected to enter repayment from December 1st, 2013, through June, 2014, and calculating charge payments in ELTS, compounded monthly, at 1.0%. We determine the charge revenue for Fiscal Years 2015 and beyond using the same methodology.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Section 2(5) would authorize moneys in the account to be used for: (a) the cost of staffing the management of the water pollution control revolving fund loan program; (b) the costs of administering loans and collecting loan repayments; (c) the costs associated with information and data systems used to track and manage the water pollution control revolving fund; (d) other costs associated with administering the SRF loan program.

Implementation of the administration charge bill would require rulemaking to set the charge rate and establish a process for collection. Ecology would initiate rulemaking process at the time the administration charge bill is passed by the legislature and signed by the Governor, assumed to occur in April 2013. The rulemaking process is expected to be complete by November 30, 2013. Ecology assumes there would be no additional cost to accomplish this rulemaking process as current administrative costs include periodic rulemaking to address federal and state program updates and changes.

Expenditure Assumptions: We assumed that funds in the new Water Pollution Control Revolving Administration Account would be collected in the second half of Fiscal Year 2014 and would begin to be spent in Fiscal Year 2014.

A transition to the new Water Pollution Control Revolving Administration Account would begin in Fiscal Year 2014. A decline in administration funds available from the EPA capitalization grant is expected at the same time. Table A (attached) shows the combined effect of the new Water Pollution Control Revolving Account administration charge agency request legislation and the budget request. The spreadsheet is divided in three sections.

1. Capital Pass Through Budget Impact. This section shows the impact on the Capital Budget. Water Pollution Control Revolving Account capital appropriations would be reduced in the amount of the collection of the new Water Pollution Control Revolving administration charge.
2. Water Pollution Control Administration Funding Available. This section shows operating funding sources available to support SRF administration costs and the shift from the existing EPA capitalization grant to the new Water Pollution Control Revolving Administration Account. In Fiscal Year 2014 through Fiscal Year 2017, there would be a gap in funding because new revenues from the administration charge will not be enough to cover expenditures. This gap would be filled by the State Toxics Control Account. In Fiscal Year 2018, the Water Pollution Control Revolving administration charges would entirely cover the SRF administration costs.
3. Water Pollution Control Administration Changes. This section shows amounts that would shift between fund sources and the additional costs of implementing the administration charges as well as the amount of State Toxics Gap funding needed in Fiscal Years 2014 through 2017.

Table B (attached) depicts the EPA capitalization grant and operating expenditures for the program with no new administration charge (left side) and with the new administration charge (right side). Without the administration charge, the program would run into a deficit in Fiscal Year 2014. With the administration charge and State Toxics Control Account gap funding, the program could transition from the EPA capitalization grant to the new account and continue in perpetuity.

The EPA capitalization grant beginning balance in Fiscal Year 2014 is projected to be \$475,706. Ecology will realize this positive balance in Fiscal Year 2013 because Ecology staff will charge to the SRF American Recovery and Reinvestment Act (ARRA) administration funds in the Capital Budget as directed by EPA. Charging staff to the ARRA administration in Fiscal Year 2013 will bolster regular SRF administration for the 2013-15 biennium. This is reflected in Table B in the first column, titled 'EPA Cap Grant Surplus from Previous Year.'

Ecology currently has 12 staff funded from the EPA Cap grant managing our \$1.225 billion loan portfolio. These staff provide technical and financial expertise, program management and planning, strategic financial planning, and project management, including fiscal and engineering oversight and site inspections. Ecology assumes that this staffing level would remain constant.

This bill would require additional costs to calculate, bill, and properly record the new charge in the Agency Financial Reporting System (AFRS). The cost directly related to the passage of this bill would be \$50,000 for a one-time contract in Fiscal Year 2014. That effort would determine new business process requirements and the feasibility of modifying

Ecology's existing Loan Tracking System to track, manage and calculate the new charges and generate amortization schedules for all loans under the new Water Pollution Control Revolving administration charge.

Ecology also projects new costs beginning in FY 2014 when it collects the first charges. 0.5 new FTE at a Financial Analyst 2 would be needed to manually calculate and track the new charges and amortizations for each loan awarded (estimated at 20-25 loans per fiscal year). We assume this work would continue until a modified or replacement loan tracking system becomes available. These new contract and staffing costs would total \$90,824 in FY 2014 and \$39,491 per fiscal year from FY 2015 until a new loan tracking system is up and running.

Based on the results of the scoping study, an upgrade to Ecology's Loan Tracking System (ELTS), or some other solution, could be required. Ecology is also scoping an agency-wide solution to meet its business processes for loan and grant program and project management. Once these studies are complete, Ecology will know whether it has the capacity to upgrade the systems using in-house resources, or whether additional system development resources would be required. If additional resources were needed, Ecology would propose them through the normal budget development process for the 2015-17 biennium.

Ecology is assuming the new costs would be paid from the New Account established for the Water Pollution Control Administrative charge account.

Notes on costs by object:

Salary estimates are current actual rates plus 3 percent, at step G.

Employee benefits are the agency standard average of 33.1 percent of salaries.

Contract costs of \$50,000 are estimated for the ELTS scoping study in FY 2013. Goods and services are the agency standard average of \$5,008 per direct program FTE per fiscal year.

Travel is the agency standard average of \$1,097 per direct program FTE per fiscal year.

Start-up Equipment costs for the first year are calculated at the agency average rate of \$2,666 per direct program FTE based on current costs for basic computer equipment and an office chair.

Agency Administrative Overhead is calculated at the federal indirect rate of 35.1% of program salaries and benefits, and is identified in Expenditures by Object as 9-Agency Administrative Overhead. Administration program FTEs are included at 0.15 FTE per direct program FTE, and are identified in the Part III-B FTE Detail table as Fiscal Analyst 2.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

| | FY 2014 | FY 2015 | 2013-15 | 2015-17 | 2017-19 |
|--|-----------------|-----------------|-----------------|-----------------|------------|
| FTE Staff Years | 0.6 | 0.6 | 0.6 | 0.6 | |
| A-Salaries and Wages | 20,265 | 20,265 | 40,530 | 40,530 | |
| B-Employee Benefits | 6,708 | 6,708 | 13,416 | 13,416 | |
| C-Personal Service Contracts | | | | | |
| E-Goods and Services | 2,501 | 2,501 | 5,002 | 5,002 | |
| G-Travel | 549 | 549 | 1,098 | 1,098 | |
| J-Capital Outlays | | | | | |
| N-Grants, Benefits and Client Services | | | | | |
| P-Debt Service | | | | | |
| S-Interagency Reimbursements | | | | | |
| 9-Agency Administrative Overhead | 9,468 | 9,468 | 18,936 | 18,936 | |
| Total: | \$39,491 | \$39,491 | \$78,982 | \$78,982 | \$0 |

III. B - Detail: List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA

| Job Classification | Salary | FY 2014 | FY 2015 | 2013-15 | 2015-17 | 2017-19 |
|--------------------------------|---------------|------------|------------|------------|------------|------------|
| Fiscal Analyst 2 | | 0.1 | 0.1 | 0.1 | 0.1 | |
| Fiscal Analyst 2-Manual Charge | 40,530 | 0.5 | 0.5 | 0.5 | 0.5 | |
| Calculations | | | | | | |
| Total FTE's | 40,530 | 0.6 | 0.6 | 0.6 | 0.6 | 0.0 |

Part IV: Capital Budget Impact

Identify acquisition and construction costs not reflected elsewhere on the fiscal note and describe potential financing methods

| Construction Estimate | FY 2014 | FY 2015 | 2013-15 | 2015-17 | 2017-19 |
|-----------------------|--------------------|--------------------|--------------------|--------------------|---------|
| Acquisition | | | | | |
| Construction | | | | | |
| Other | (1,173,770) | (1,523,000) | (2,696,770) | (3,187,982) | |
| Total \$ | (1,173,770) | (1,523,000) | (2,696,770) | (3,187,982) | |

Assuming administrative charges would be offset by a corresponding reduction in interest charges, future capital funding would be reduced by the new charges collected to cover program administration. Ecology estimates \$235,190 would not be available for loans in the capital budget in FY2014. During the first 10 years of Fee collection, FY 2014 through FY 2023, \$17.2 million would not be available for loans. This averages \$1.72 million per year over the ten year period.

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

This bill would require rulemaking to set the administrative charge and establish a process for charge collection. Ecology would undergo rulemaking at the time the administrative charge bill is passed by the Legislature and signed by the Governor, which is estimated to occur in May of 2013. Ecology expects it would complete the rule process by November of 2013. Section 2 would be added to RCW 90.50A, which would authorize Ecology to establish a charge for administration as a portion of the debt service for SRF loans, distinct from interest and principal repayment. Charges collected would be placed in a newly established Water Pollution Control Revolving Administration Account. Ecology assumes that no additional costs for this purpose would be incurred. Ecology would undertake rule making to establish the new SRF administration charge rate and procedures. Ecology periodically does SRF rulemaking as needed to meet federal requirements and program updates, so no new costs would be incurred.

Department of Ecology

Table A-Purpose is to show the full effect of the new Water Pollution Control Revolving Administration Charge

8/7/2012

| 1. Capital Pass Through Budget Impact | FY14 | FY15 | FY16 | FY17 | Total |
|--|-------------------|-------------------|-------------------|-------------------|--------------------|
| 727 Capital Revenue -Before New Charges | 75,360,129 | 73,393,904 | 59,528,327 | 59,026,139 | 267,308,499 |
| <i>Less New Water Pollution Control Admin Charge Revenue</i> | <i>-235,190</i> | <i>-785,560</i> | <i>-1,173,770</i> | <i>-1,523,000</i> | <i>-3,717,520</i> |
| 727 Capital Appropriations After Charges Collected | 75,124,939 | 72,608,344 | 58,354,557 | 57,503,139 | 263,590,979 |
| 2. Water Pollution Control Admin Funding Available | FY14 | FY15 | FY16 | FY17 | Total |
| Fund 727-Admin available from EPA Cap Grant* | 1,220,486 | 558,585 | 0 | 0 | 1,779,071 |
| Fund 173-State Toxics Control Account Gap Funding Requested | 189,648 | 249,846 | 420,221 | 70,991 | 930,706 |
| New Water Pollution Control Admin Charge | 235,190 | 785,560 | 1,173,770 | 1,523,000 | 3,717,520 |
| Total Operating Admin Funding Available | 1,645,324 | 1,593,991 | 1,593,991 | 1,593,991 | 6,427,297 |
| 3. Water Pollution Control Admin Changes | FY14 | FY15 | FY16 | FY17 | Total |
| Fund 727-Operating Admin (compared to baseline) | -334,014 | -995,915 | -1,554,500 | -1,554,500 | -4,438,929 |
| Fund 173-State Toxics Control Account | 189,648 | 249,846 | 420,221 | 70,991 | 930,706 |
| New Water Pollution Control Admin Charge | 235,190 | 785,560 | 1,173,770 | 1,523,000 | 3,717,520 |
| Total Increase Due to new Admin Charge | 90,824 | 39,491 | 39,491 | 39,491 | 209,297 |

Note:

* Includes carry-forward in 2014 from prior EPA award. (Ecology assumes the SRF ARRA admin will be spent in Fiscal Year 2013. It will not carry into the 2013-15 biennium because EPA has advised Ecology all ARRA must be spent by September 30, 2013.)

