FINAL BILL REPORT
SHB 1141

C 96 L 13
Synopsis as Enacted

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

Sponsors: House Committee on Capital Budget (originally sponsored by Representatives Smith, Tharinger, Short, Hunt, Stanford, Warnick and Ryu; by request of Department of Ecology).

House Committee on Capital Budget
Senate Committee on Ways & Means

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

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, sewer systems, 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 may also issue subsidized loans and forgivable principal loans in hardship cases.

The SRF 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 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

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the DOE may use up to 4 percent of the EPA capitalization grant to cover its SRF program administration costs.

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

Summary:

<u>Administration Charge Authorized</u>.
The DOE may assess an administration charge for loans issued under the SRF program in order to predictably and adequately fund the DOE'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. Administration charges on loans in repayment status will be assessed after the act takes effect and associated rule changes are adopted. Loans carrying an interest rate less than the administration charge rate will be exempt from the charge.

<u>Account Created in the State Treasury</u>.
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.

<u>Expenditure of Moneys in the Account</u>.
Each biennium, the DOE 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 with its 2017-19 operating budget submittal, the DOE must compare the projected balance in the Account and the projected income from the administration charge with its projected program administration costs, including an adequate working capital reserve approved by the Office of Financial Management. The DOE 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 that the Account adequately covers the costs of program administration, the DOE must use any federal capitalization dollars it receives to make loans.

<u>Accountability</u>.
By December 1, 2018, the DOE must report to legislative fiscal committees on implementation of the administration charge.

Votes on Final Passage:

House	93	4
Senate	44	4

Effective: July 28, 2013
Contingent (Section 4)