

**Department of Planning and Budget  
2012 Fiscal Impact Statement**

**1. Bill Number:** SB494

**House of Origin**     Introduced     Substitute     Engrossed  
**Second House**     In Committee     Substitute     Enrolled

**2. Patron:**    Watkins

**3. Committee:** Finance

**4. Title:**    Bond issuance for wastewater treatment facilities.

**5. Summary:** Authorizes the Virginia Public Building Authority (VPBA) to issue an additional \$300 million in bonds for Nutrient Removal Grants to fund or reimburse capital costs for the design and installation of nutrient removal technology at eligible wastewater treatment facilities to comply with the Chesapeake Bay total maximum daily load (TMDL) and the Watershed Implementation Plan, and \$78 million in bonds for grants to the Cities of Lynchburg and Richmond to pay a portion of the capital costs of their combined sewer overflow (CSO) control projects. The bonds issued for Nutrient Removal Grants would continue funding for projects at facilities under existing signed Water Quality Improvement Fund agreements and at additional eligible facilities that did not receive moneys from the original bonds authorized in 2007.

Additionally, this bill modifies the structure of the Combined Sewer Overflow Matching Fund. Currently, this fund matches federal funds for the purposes of providing grants to localities for CSO projects. Under the provisions of the bill, moneys in the fund may be used to match federal funds, but the fund's use is no longer limited to that purpose.

**6. Budget Amendment Necessary:** Yes. Item 280. See item 8, below.

**7. Fiscal Impact Estimates:** Preliminary. See item 8, below.

**8. Fiscal Implications:** The proposed legislation authorizes VPBA to issue an additional \$378 million in bonds for Nutrient Removal Grants from the Water Quality Improvement Fund to certain publicly owned sewage treatment facilities to fund a portion of the costs of design and installation of 85 of the 89 projects listed in Chapters 851 and 900, 2007 Acts of Assembly, and other eligible nonsignificant dischargers (\$300 million), and for CSO control projects in the Cities of Lynchburg and Richmond (\$78 million).

Under the provisions of this bill, \$128 million of the additional \$378 million in bonds could be authorized prior to July 1, 2013 (FY 2014). Of which, \$78 million would be used to pay a portion of the capital costs of CSO control projects in the Cities of Richmond and Lynchburg beginning July 1, 2012 (FY 2013). The proceeds of the \$78 million in bonds will be

deposited into the Combined Sewer Overflow Matching Fund; 36 percent of the net proceeds will be provided to the City of Lynchburg and 64 percent will be provided to the City of Richmond. The remaining \$50 million authorized for issuance prior to FY 2014 would support Nutrient Removal Grants.

The bonds authorized by this bill will constitute tax-supported debt of the Commonwealth and as such have an impact on the Commonwealth's debt capacity. Language in the bill specifies that no more than \$128 million of the additional bonds authorized in this bill will be issued prior to July 1, 2013. The amount of debt service required will depend on when any additional bonds are issued. If VPBA issues \$128 million in FY 2013, and the balance, or \$250 million, in FY 2014, then debt service in the amount of \$9.4 million, from the general fund, will be required in FY 2014 and debt service in the amount of \$27.8 million, from the general fund, will be required in FY 2015 and each year thereafter. Debt service is paid over a 20 year span.

- 9. Specific Agency or Political Subdivisions Affected:** Department of the Treasury, Treasury Board, Virginia Public Building Authority, Department of Environmental Quality (DEQ), State Water Control Board, Virginia Resources Authority, Augusta County Service Authority, Town of Luray, Harrisonburg-Rockingham Regional Sewer Authority, City of Waynesboro, Town of Berryville, Town of Front Royal, Town of Mount Jackson, Stoney Creek Sanitary District, Town of Strasburg, Town of Woodstock, Frederick-Winchester Service Authority, Town of Purcellville, Loudoun County Service Authority, Town of Leesburg, Town of Round Hill, Prince William County Service Authority, Upper Occoquan Sewage Authority, Arlington County, Fauquier County Water and Sewer Authority, Alexandria Service Authority, Fairfax County, Stafford County, Town of Colonial Beach, King George County Service Authority, Town of Culpeper, Town of Orange, Rapidan Service Authority, Town of Warrenton, Spotsylvania County, City of Fredericksburg, Stafford County, Westmoreland County, Town of Tappahannock, Town of Warsaw, Reedville Sanitary District, Town of Kilmarnock, Caroline County, Hanover County, Hampton Roads Sanitation District, New Kent County, City of Buena Vista, City of Covington, Maury Service Authority, Alleghany County, Town of Amherst, City of Lynchburg, Rivanna Water and Sewer Authority, Town of Crewe, Town of Farmville, Henrico County, City of Hopewell, Chesterfield County, City of Richmond, South Central Wastewater Authority, Town of Cape Charles, Town of Onancock, Town of Tangier.

- 10. Technical Amendment Necessary:** No.

- 11. Other Comments:** The Virginia Resources Authority administers and manages the Combined Sewer Overflow Matching Fund. The State Water Control Board may direct the distribution of grants from the fund to particular local governments. The Department of the Treasury has concerns regarding the language in lines 205-212 requiring the bond proceeds be deposited in the fund. If the bond proceeds deposited to the fund are not immediately disbursed it can violate federal arbitrage restrictions. Federal arbitrage rules prohibit the excessive and premature issuance of tax-exempt bonds so that governments will not benefit from the investment of bond proceeds in income-producing securities.

According to DEQ, the bond authorization of \$250 million that was authorized in FY 2007 is expected to be depleted by the end of FY 2012. Going forward, DEQ estimates that commitments for signed grant agreements, grant applications currently under review, and pending applications will exceed the \$300 million proposed in this bill for Nutrient Reduction Grants. As of January 2012, the full estimated need for matching funds for upgrades is approximately \$423 million; this includes approximately \$100 million for the shortfall on existing grant agreements, \$42 million for current applications under active processing, \$199 million for applicants that do not have a signed agreement yet, and \$128 million for eligible facilities that have not filled out an application yet. These amounts also include the anticipated \$45 million deposit from the surplus for point source projects.

**Date:** 2/13/12

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