

SUBJECT: Creating a rural water assistance fund

COMMITTEE: Natural Resources — committee substitute recommended

VOTE: 6 ayes — Counts, King, Cook, Corte, R. Lewis, Walker
0 nays
3 absent — Hilderbran, Hope, Puente

WITNESSES: For — Ken Peterson and Kent Watson, Texas Rural Water Association
Against — None

BACKGROUND: Government Code, sec. 403.095 deals with the use of dedicated revenue. After certification of the general appropriations act, sec. 403.095 authorizes the comptroller to reduce the balance of a dedicated account in the amount by which estimated revenues and unobligated balances exceed appropriations. Sec. 404.071 governs the monthly disposition of interest on investments for special funds and accounts.

DIGEST: CSHB 622 would create the rural water assistance fund in the state treasury. It would consist of money transferred directly to the fund, repaid principal and interest not needed as a source of revenue, money transferred to the fund by the Texas Water Development Board from any available source, and investment interest and depository interest allocable to the fund in the general revenue fund. Government Code, sec. 403.095 and sec. 404.071 would not apply to the fund.

The political subdivisions that would be eligible for assistance from the fund include:

- ! a nonprofit water supply or sewer service corporation, district, or municipality that had a service area with a population of 10,000 or less or one that qualifies for federal financing; and
- ! a county that did not contain an urban area with a population larger than 50,000.

The fund only could be used to:

- ! provide low-interest loans to eligible political subdivisions for water or water-related projects;
- ! enable eligible political subdivisions to obtain water supplied by a city, county, district or authority, or other political subdivision;
- ! finance the consolidation or regionalization of water-related projects of neighboring eligible political subdivisions;
- ! contract for an outreach and technical assistance program to assist eligible political subdivisions in obtaining assistance from the fund;
- ! refinance loans at lower rates; or
- ! as a source of revenue for paying debt service on water financial assistance bonds issued by the board, if the proceeds of the bond issuance were to be deposited in the fund.

An eligible political subdivision could submit a joint application with a federal or state agency for financial assistance from the fund.

The board would have to adopt rules to administer the fund. The board could not deliver funds until the executive administrator found that an applicant proposing surface water development had the necessary water rights or that an applicant proposing groundwater development had the right to use water provided by the project.

In reviewing an application for financial assistance, the board would have to consider:

- ! the needs of the area to be served by the project and the benefit of the project to the area;
- ! the relationship of the project to the state's overall water needs and the state water plan; and
- ! the political subdivision's availability of revenue to repay the cost of the project.

The board could approve an application for assistance if it found that the public interest was being served by approving the project and the revenue or taxes pledged by the political subdivision would be sufficient to meet the subdivision's obligations for the next 50 years. Before approving an

application, the board would have to require the applicant to adopt a water conservation program. Approved projects would be subject to construction contract requirements.

The board could direct the comptroller to transfer money from the financial assistance account to the fund. Also, the board would have to use the fund as a source of revenue for paying debt service on water financial assistance bonds and to make payments under a bond enhancement agreement.

An item used by a nonprofit water supply or sewer service corporation for a project financed by the fund would be exempt from limited sales, excise, and use taxes.

The bill would take effect September 1, 2001.

**SUPPORTERS
SAY:**

CSHB 622 would create a needed rural water assistance fund to provide low-interest loans for water projects in rural areas. There are about 4,500 community water systems in Texas, and nearly 4,300 serve populations below 10,000. The cost of an adequate and reliable water supply for rural citizens is significantly higher than for their urban counterparts. An urban water system can spread the cost for a capital-intensive water project among hundreds of thousands of customers, while a rural system may have only a few hundred meters among which to spread capital costs.

CSHB 622 would allocate money from the fund to outreach and technical assistance. Many rural areas are unaware of available assistance for water projects. In addition, they often lack the sophistication to develop such projects without outside assistance from lawyers and engineers.

Low-interest and longer-maturity loans from the fund would help to make water projects more affordable for rural areas. The regional planning groups established by SB 1, the comprehensive water planning legislation enacted by the 75th Legislature in 1997, have identified \$17 billion statewide needed for water supply projects alone. Additional funds would be needed for treatment and storage.

OPPONENTS
SAY:

CSHB 622 would cost the state money. The fund would require \$6 million in general revenue over the biennium to buy down interest rates on loans and provide outreach and administration. During a time of budget constraints, other priorities, such as expanded health care for needy children and teacher health insurance, also are competing for scarce resources.

NOTES:

The substitute made a number of changes to the original version including:

- ! requiring the board to make a finding regarding the sufficiency of the applicant's water rights;
- ! specifying factors the board must consider in approving an application; and
- ! requiring an applicant to adopt a water conservation program.

The fiscal note assumes that the Water Development Board would issue approximately \$16 million in bonds each biennium and that \$3 million would be appropriated to the rural water assistance fund each fiscal year to buy down interest rates for loans.

The House-passed version of SB 1 by Ellis, the fiscal 2002-03 general appropriations bill, includes in the Art. 11 "wish list" an appropriation of \$6 million to implement HB 622, contingent on its enactment.