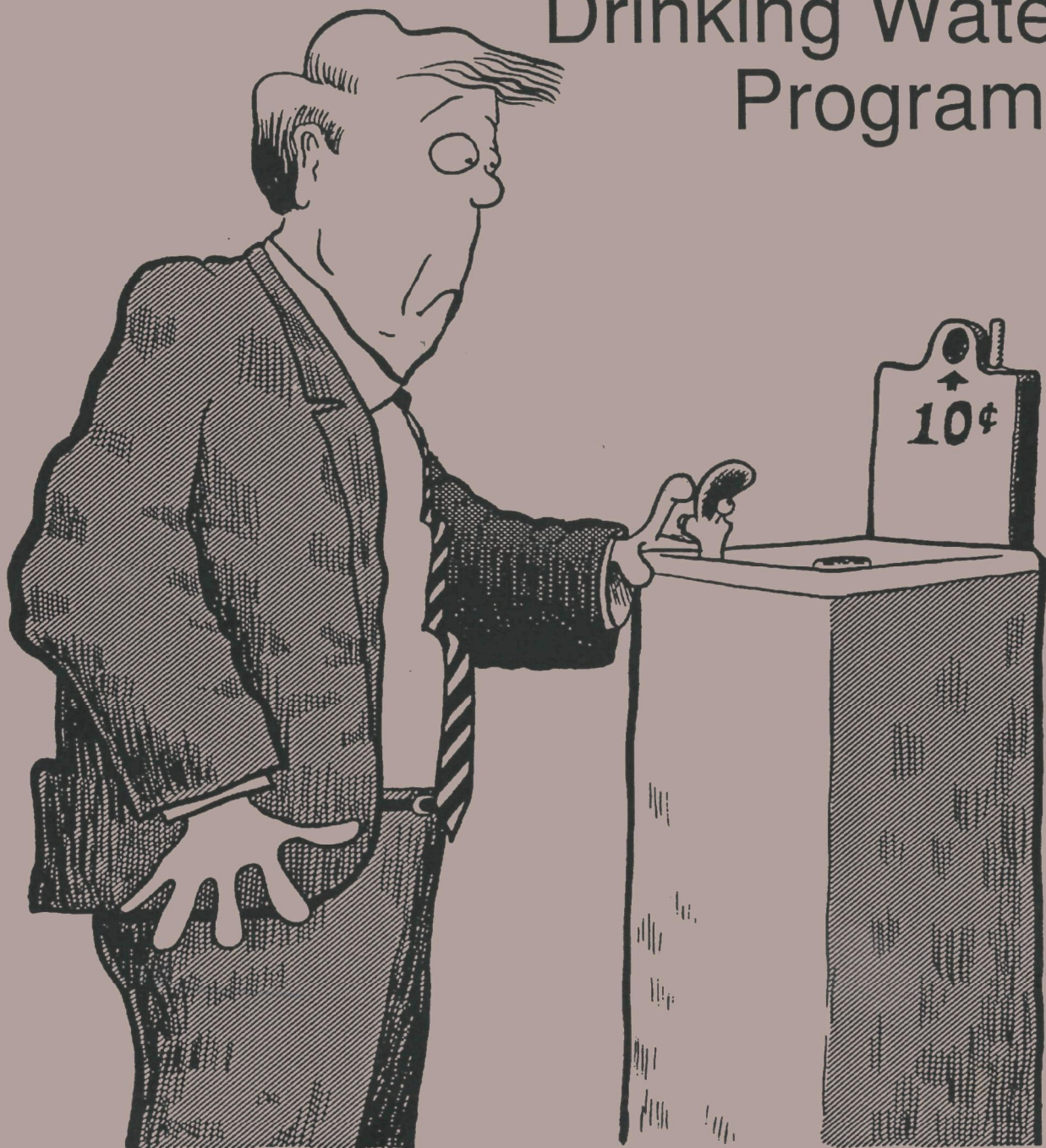


EPA Paying for Safe Water Alternative Financing Mechanisms for State Drinking Water Programs



This booklet was prepared by the Government Finance Research Center (GFRC) of the Government Finance Officers Association under contract with the U.S. Environmental Protection Agency's Office of Drinking Water. The GFRC would like to acknowledge the assistance of the EPA's Brian C. Rourke and those at the State level whose participation made its publication possible.

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INTRODUCTION

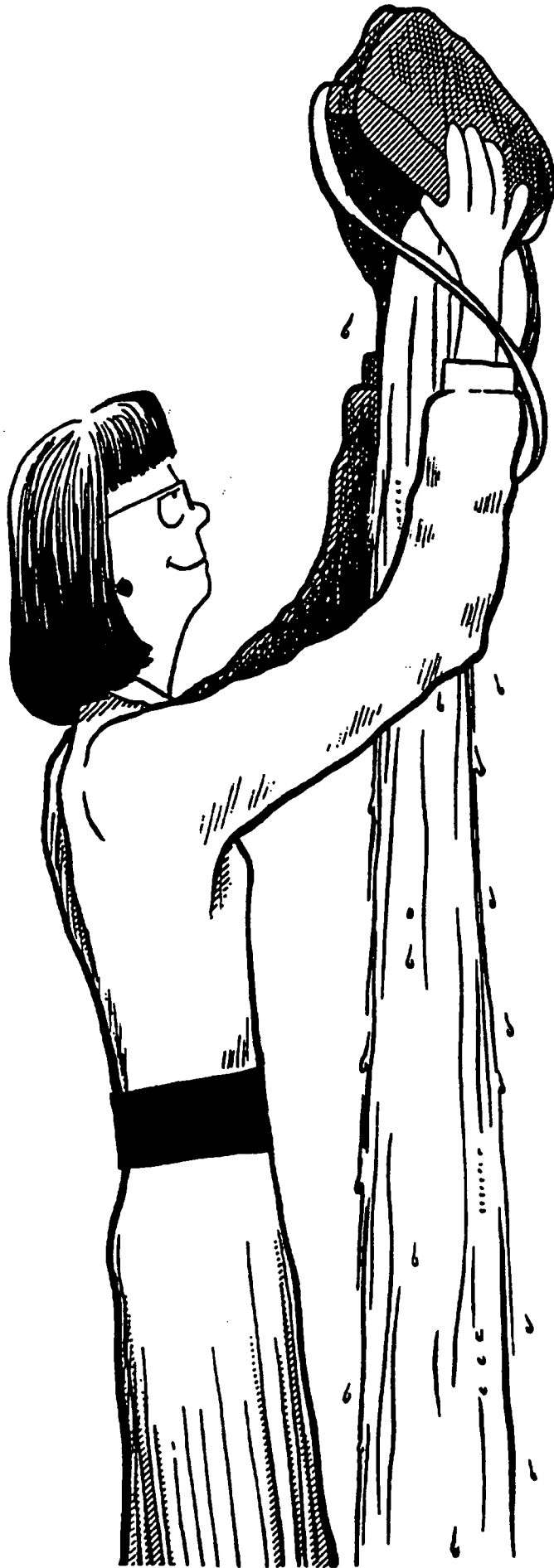
The 1986 amendments to the Safe Drinking Water Act (SDWA) of 1974 imposed new or expanded requirements on State drinking water supervision programs. The Association of State Drinking Water Administrators (ASDWA) recently estimated that costs associated with these requirements will be approximately \$280 million annually, an amount that is nearly three times current program expenditure levels.

This booklet discusses methods that can be used by States to raise revenues to meet current needs and to finance the costs associated with implementation of the new amendments. These methods have been termed "alternative financing mechanisms" (AFMs), and include: user fees, dedicated or "earmarked" taxes, and fines and penalties.

The first section of this booklet discusses the need for additional monies to ensure that State drinking water programs are fully funded and describes, in general terms, the AFMs available to those programs. The second section consists of case studies which look at particular AFMs actually in use or proposed for use in nine States around the country. An appendix is also included which summarizes AFMs used in these and other States.

Drawing general conclusions from the case studies is complicated by the fact that each experience presented unique constraints and opportunities to a wide variety of participants. Hence, the widely varying outcomes. In fact, some States are still debating the merits of particular AFMs, as well as their overall approach to funding. Lessons can be learned, however, from each of their attempts to generate new revenues. Louisiana, for example, experimented with AFMs for a time, but has decided to fund its drinking water program through the State general fund appropriations process. New Jersey, on the other hand, has abandoned general fund appropriations in favor of a number of AFMs. Many other States are using a combination of the two methods to fund their drinking water programs.

Perhaps the most important conclusion to be drawn from these diverse experiences is that early and ongoing public involvement is essential to develop and maintain adequate funding for a State's drinking water program, regardless of whether the program will use AFMs or general fund revenues. Failure to develop support for full funding of the drinking water program could threaten the loss of primacy and federal funding for the program. Regardless of the revenue source, it is critical that State programs receive adequate resources if they are to meet the challenges of the new amendments and continue to provide their residents with a safe supply of drinking water.



SECTION I:

A DISCUSSION OF ALTERNATIVE FINANCING MECHANISMS

The 1986 amendments to the Safe Drinking Water Act (SDWA) of 1974 imposed new or expanded monitoring and treatment requirements on public- and investor-owned water supply systems, and State drinking water supervision programs. While most of the costs associated with these requirements will fall on local water supply systems and their customers, State drinking water programs will also be faced with additional expenses. How State drinking water programs can pay for these costs is the subject of this booklet.

The SDWA amendments require the U.S. Environmental Protection Agency (EPA) to promulgate new national primary drinking water regulations for 83 contaminants, and set up a mechanism by which States can maintain primary responsibility (primacy) for implementation and enforcement. At present, 48 States have been granted primacy by the EPA. The amendments also call for the provision of grants-in-aid to primacy States for the support of drinking water programs, with States contributing a minimum of 25 percent of the federal grant. Failure to meet the requirements of the 1986 amendments could lead to a State's loss of primacy and federal financial support. In FY88, this support amounted to 34 percent of the monies spent on State drinking water programs, according to *State Costs of Implementing the 1986 Safe Drinking Water Act Amendments* (prepared by the Association of State Drinking Water Administrators and the EPA's Office of Drinking Water).

Implementation of regulations resulting from the SDWA amendments will require significant funding increases. In past years, most State drinking water programs relied almost entirely on State general fund appropriations and federal grants-in-aid for program expenses. Due to the size of the financial demands being placed on these programs by new SDWA requirements, it is widely believed that some legislatures will be unable or unwilling to provide increased general fund appropriations to ensure compliance. Because of this anticipated shortage of funds, many States are considering expanding the variety of revenue sources available to State drinking water programs. These new sources of revenue are generally known as "alternative financing mechanisms" (AFMs). Although AFMs take a number of forms, three are relevant to this analysis: user fees, dedicated or "earmarked" taxes, and fines and penalties.

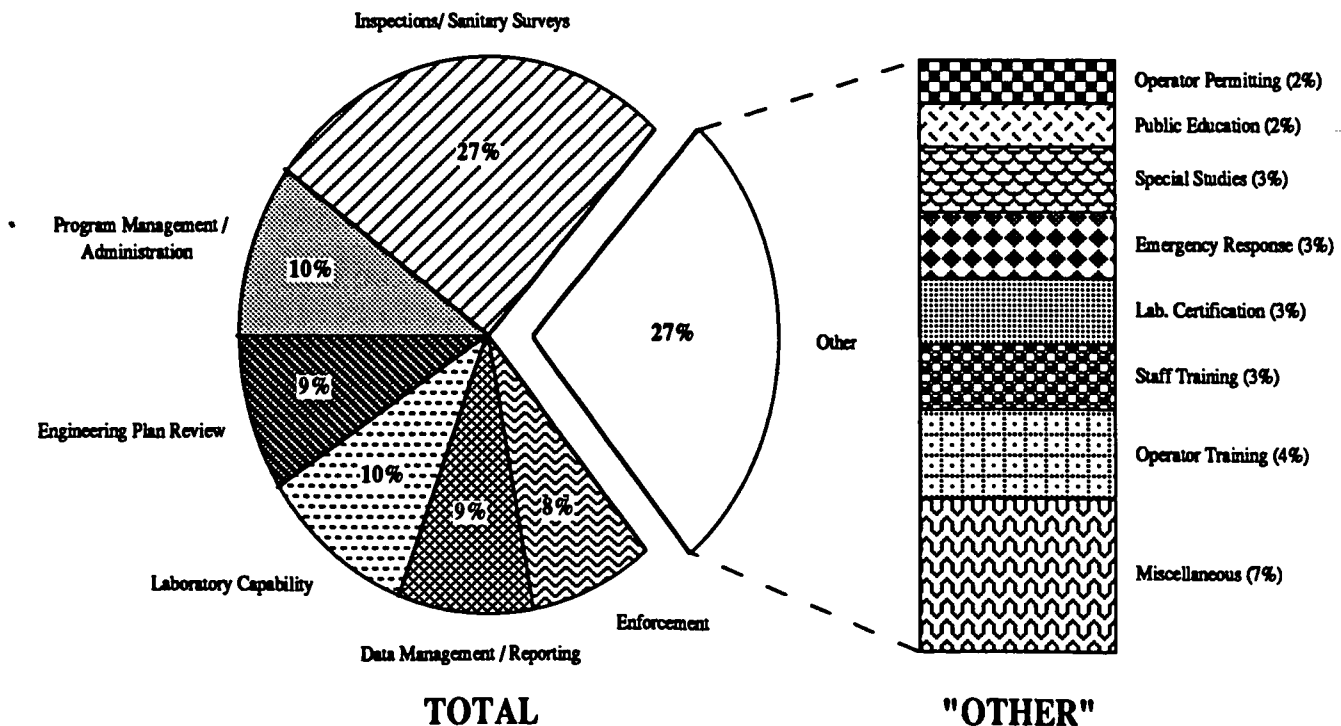
The first section of this booklet will discuss the need for additional monies for State drinking water programs in light of new EPA requirements, and the three types of alternative financing

mechanisms mentioned above. In Section II, case studies will be presented which focus on alternative financing mechanisms in use, or proposed, in nine States around the country. The appendix summarizes programs from these and other States in matrix format.

The Need for Additional Funds

State drinking water programs are engaged in a wide variety of activities. Exhibit 1 shows the distribution of current expenditures by program area. As one can see, inspections and sanitary surveys accounted for over 25 percent of drinking water program expenditures in FY88. Program management and administration, laboratory capability, engineering plan review, and enforcement each accounted for between 8 and 10 percent of drinking water program regulations in that year. Increased revenues will be needed in coming years especially to fund additional technical assistance efforts and enforcement actions.

Exhibit 1
Distribution of Current Expenditures
By Program Area - FY88*



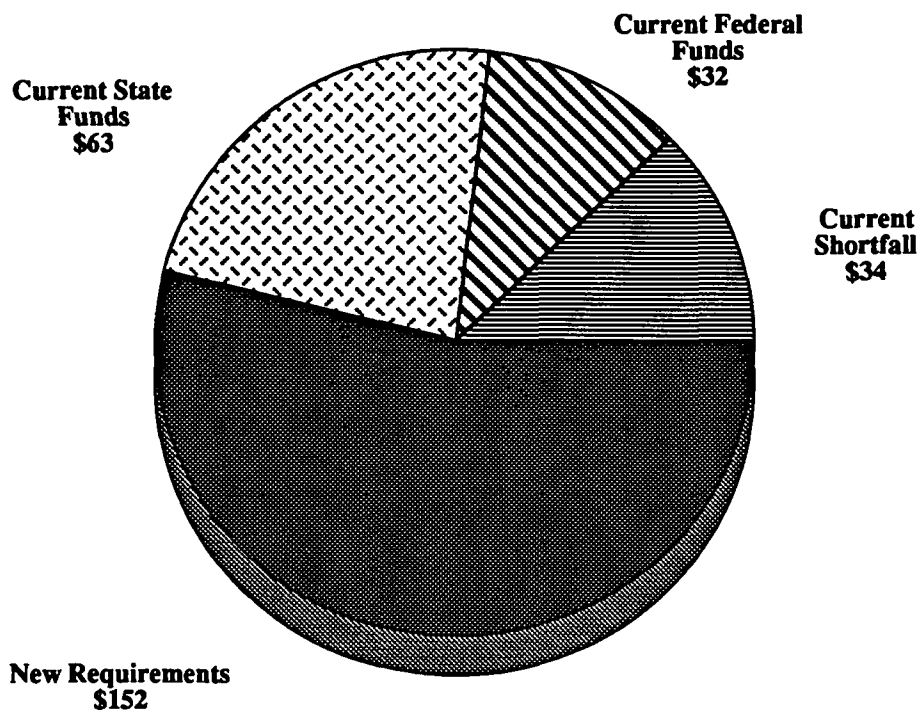
* Among states that responded to the survey

Source: *State Costs of Implementing the 1986 Safe Drinking Water Act Amendments*. Arlington, VA: Association of State Drinking Water Administrators, July 1989.

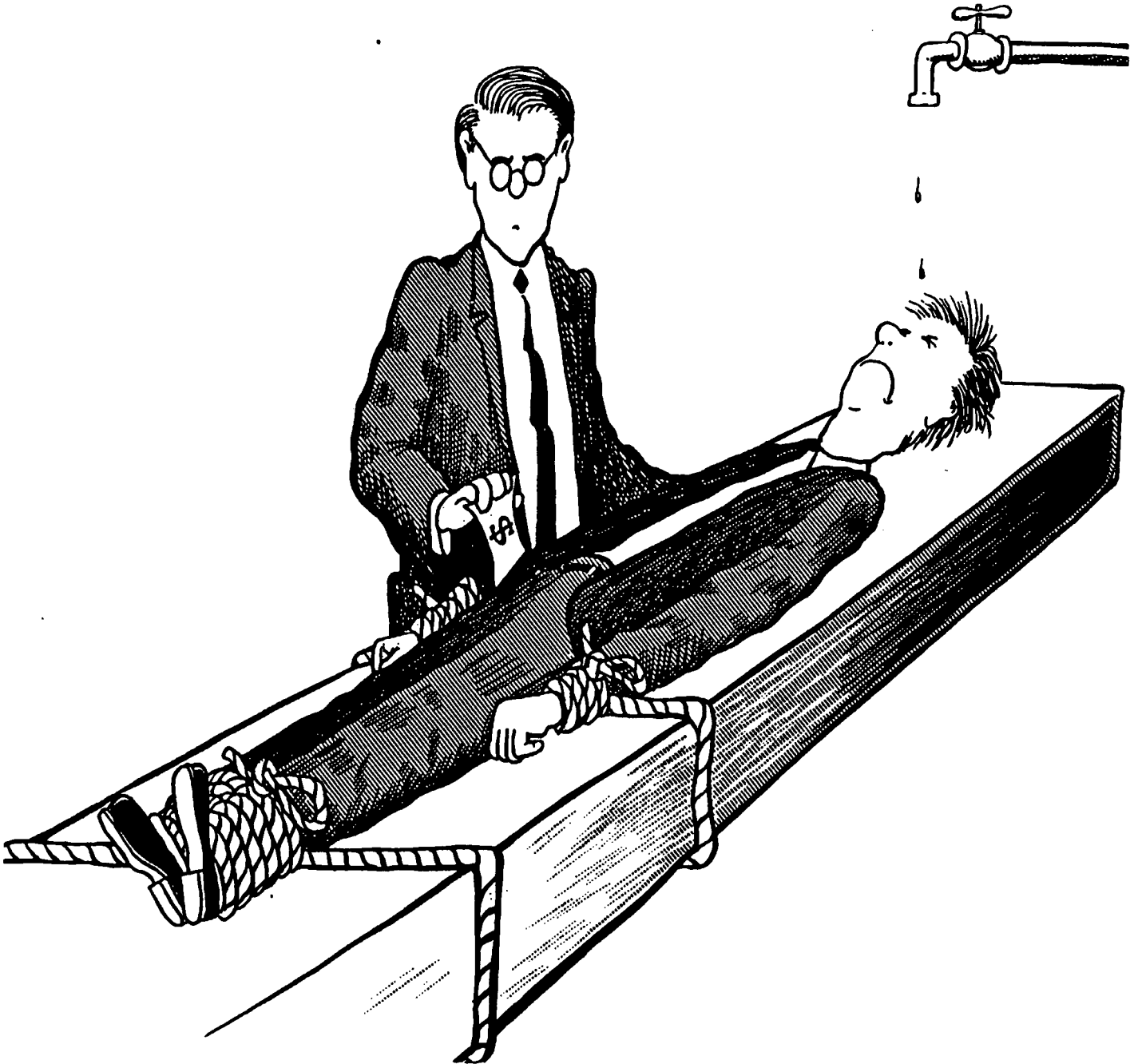
An estimate of the costs associated with compliance with the requirements of the 1986 SDWA amendments has been developed by the Association of State Drinking Water Administrators (ASDWA), with the assistance of the EPA's Office of Drinking Water (ODW). The ASDWA study looks at the impact of the 1986 amendments on State drinking water programs, and highlights the need for additional funding to ensure the provision of safe drinking water to the public.

Exhibit 2 shows the estimated costs of meeting the current and new EPA requirements as reported in the ASDWA survey. ASDWA found that State expenditures for drinking water programs, which totalled \$95 million in FY88, were \$34 million short of the amount necessary to ensure compliance with current EPA regulations. Of the 37 State programs examined in the ASDWA study, only 15 States indicated that resources were adequate or more than adequate to meet current drinking water requirements, while 21 States noted that current resources were insufficient to meet program needs. By 1993 it was estimated that State drinking water

Exhibit 2
Current and New Requirements - FY88
(Estimated Costs in Millions Per Year)



Source: *State Costs of Implementing the 1986 Safe Drinking Water Act Amendments*.
Arlington, VA: Association of State Drinking Water Administrators, July 1989.



Paying for Safe Water

programs will require \$280 million annually to meet both current and new EPA drinking water requirements, an amount nearly three times current program expenditure levels.

Funding of State Drinking Water Programs

The majority of State drinking water programs are funded through State general fund appropriations and federal grants-in-aid. State drinking water programs that are financed with user fees and other alternative financing mechanisms may also be required to go through the appropriations process.

An important characteristic of State drinking water programs is their inclusion in broadly-focused environmental or health agencies. This is significant because funds for drinking water programs may be subject to the authority granted the director of the larger agency. This authority may include the ability to transfer funds (from non-federal sources) into or out of the drinking water program's budget accounts for any number of reasons. Funding for drinking water programs may also be threatened by increased competition from other important programs (such as AIDS education and assistance, aid to the homeless, and anti-drug efforts).

In discussing the funding of State drinking water programs, the significance of general fund support of program operations should not be underestimated. In the following sections, continued State general fund support of drinking water programs will be examined, along with alternative means of financing those programs.

The Case for State General Fund Financing

There are several reasons why the State general fund should continue to be the source of a significant proportion of revenues for State drinking water programs. These reasons include:

- It is unlikely that alternative financing mechanisms will provide enough revenue to meet drinking water program needs. Should these programs be underfunded, they may not be able to comply with EPA requirements. Continued State general fund support can help to ensure compliance.
- General tax funds are often used when the benefits of a particular governmental activity contribute to the public good or, conversely, when the danger of not

providing such an activity will result in public harm. State drinking water programs meet both of these conditions.

- An additional consideration is the institutional support for State drinking water program funding built up over the years in many legislatures and among the public. This support should be encouraged and cultivated.

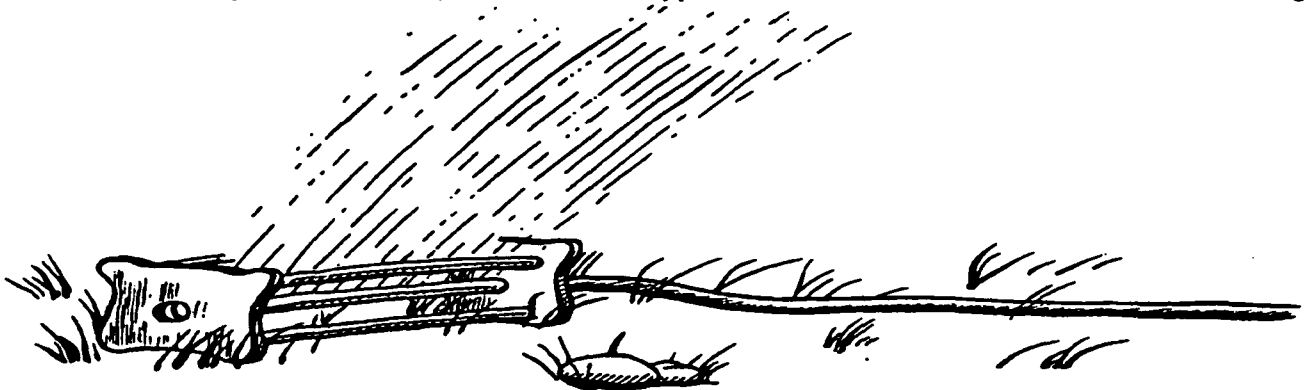
State general fund appropriations have been, and will continue to be, essential to the orderly operation of State drinking water programs. However, due to the need for additional funding to ensure compliance with existing and anticipated federal drinking water regulations, and increased demands on limited State resources, many State drinking water programs will be forced to develop alternative funding sources outside of the traditional general fund appropriations process.

The Use of Alternative Financing Mechanisms

Alternative financing mechanisms (AFMs) have been broadly defined as any revenue source other than State general fund appropriations and federal grants-in-aid. Because of the particular nature of State drinking water programs, the AFMs most likely to produce significant revenues are user fees, dedicated or "earmarked" taxes, and fines or penalties.

The use of alternative financing mechanisms for funding State environmental programs increased substantially over the last ten years according to an EPA report entitled *State Use of Alternative Financing Mechanisms in Environmental Programs*. Many States make use of AFMs in funding their environmental programs, with approximately one-third of all States using them widely.

The recent survey conducted by the National Governor's Association of AFM use in funding



State environmental programs (*Funding Environmental Programs: An Examination of Alternatives*) reported that 63 percent of the 431 active AFM programs were user fees. The survey conducted during 1988-89 also found that fines and penalties and taxes (levied through or for environmental programs) accounted for 16 percent and 9 percent of the total number of AFM programs, respectively. Of the \$1.83 billion in AFM revenues collected during the period studied (excluding bond proceeds), 25 percent came from taxes and 13 percent from user fees.

Certain State characteristics have influenced AFM use. Those characteristics include:

- Poor economic conditions have caused several States to adopt AFMs in place of general revenues to fund their environmental programs, with the AFMs remaining in place after their economies have improved.
- The political atmosphere has had a mixed effect on AFM use. Some States have opposed AFM use because they are considered to be "taxes" in disguise, or because they felt that AFMs would have a negative effect on their economies. In other States, AFMs have been looked upon as a way to get the user of a service to pay for it.
- Public awareness of environmental problems has induced some State legislatures to adopt AFMs, and has helped neutralize opposition to the introduction of AFMs in support of environmental programs.
- The funding base available to finance environmental program costs varies widely. In some States, the base is not wide enough to support those programs, while in others, AFMs are not considered necessary because program needs are largely unrecognized.

Ideally, the revenue raised from an AFM will significantly defray the costs of the related program. At a minimum, the AFM must cover the costs of collecting the new revenue. In practice, the extent to which AFM revenues fund program costs varies widely. The EPA study, noted above, surveyed water programs in eleven States and found that AFM revenues as a proportion of total program costs ranged from 1 percent to 90 percent. For the most part, revenues from user fees and taxes are used to supplement general revenue funds, rather than provide the major source of revenue.

In many States, legislative approval will be needed prior to introduction of an AFM for a drinking water program. The granting of such authority is more likely if the proposed AFM has been

adequately justified. Adequate justification would include evidence that the proposed AFM is linked to the true cost of conducting an activity, and that the AFM meets certain equity requirements (e.g., would not impose an onerous burden on the poor). Other criteria for evaluating AFMs are listed in Exhibit 3.

Exhibit 3 Criteria for Evaluating Revenue Sources

The alternative financing paper in the *State Funding Study* suggests that all revenue sources be evaluated according to the following criteria:

- 1) *Equity* reflects the fairness of the distribution of the funding burden among individuals. The ability-to-pay principle requires that each taxpayer contribute to the cost of public services in line with their ability-to-pay, and is widely accepted by economists as the appropriate guide to the determination of equity for tax policy purposes. The ability to pay approach utilizes two rules in the determination of equity between taxpayers: horizontal equity requires that people with different incomes pay the same amount of taxes, while the vertical equity rule requires that people with greater incomes pay a higher proportion of their incomes as taxes.
- 2) *Legislative acceptability* reflects the political attractiveness of a financing mechanism. There are unique legislative predispositions in each state that often influence the choice of a financing mechanism.
- 3) *Public acceptability* reflects the willingness of those subject to a fee or tax to pay, or the willingness of the public to make a particular sector pay.
- 4) *Feasibility* relates to the legal authority to impose a fee or tax as well as to factors that affect the workability of a financing mechanism.
- 5) *Revenue potential* is measured by the amount of money that can be raised with a particular financing mechanism.
- 6) *Flexibility* reflects the ability to use revenues from alternative financing mechanisms as needed for a variety of program activities.
- 7) *Administrative requirements* relate to the effort needed to implement an alternative financing mechanism, including costs for implementation, collection and fund management.
- 8) *Impacts* relate to whether a financing mechanism creates incentives for desirable (or possibly undesirable) behavior, and whether it places an undue financial burden on industry or general taxpayers.

In addition to the need to seek legislative approval for an AFM, their introduction faces additional barriers. These barriers involve the reluctance on the part of many environmental or health program managers to rely on AFM revenues to fund program operating costs due to their uncertainty, and difficulties with the implementation and administration of AFMs.

In the remainder of this section, the alternative financing mechanisms most likely to be of use to State drinking water programs will be discussed.

User Fees. By far the most common alternative financing mechanism, user fees are gaining in public support and acceptance even in this time of general tax opposition. As part of its examination of the financial impacts of the 1986 SDWA amendments on State drinking water programs, the Association of State Drinking Water Administrators surveyed user fee use. Of the 37 State drinking water programs covered in its survey, 14 were found to have user fee systems in place, while an additional 10 programs were considering implementing such systems. The degree to which revenues from user fees were dedicated to drinking water program costs varied widely, with 8 of the 14 State drinking water programs receiving all of the revenue, and 2 of the 14 State drinking water programs receiving none of the funds.

Many of the activities undertaken by State drinking water programs could be financed through the use of fees. Generally speaking, fees are imposed in order to establish a direct link between the beneficiaries of a service and the costs of providing it. In establishing fee rates, care must be taken so that the amount of revenue generated at least covers the costs of collection. Exhibit 4 describes the criteria generally employed in evaluating user fees.

Exhibit 4

Criteria for Evaluating User Fees

When public sector goods or services are similar to those offered by the private sector the possibility exists that governments will be able to charge individuals for the use of those goods and services. The ability of governments to impose user charges for the goods or services they provide depends on the technical and economic feasibility of the user charge in question. A proposed user charge is technically feasible when the benefits of a particular good or service accrue to particular individuals and when it is possible to exclude nonpayers from receiving the benefits of particular goods or services. User charges are economically feasible when it can be determined that the necessary costs of administering the proposed charges are at least equal to the efficiency and equity gains expected from the substitution of user charges for taxes.

Because of their nature, and the low rates often set, fees for service generally do not generate large revenue streams. Historically, States have collected only a nominal amount from program beneficiaries, relying instead on general fund appropriations and federal grants-in-aid. As noted above, during 1988-89, only 13 percent of the \$1.83 billion in revenues collected through alternative financing mechanisms (excluding bond proceeds) to fund environmental programs came from fees.

User fee rates can be fixed or variable. Fixed fees require the payment of an equal amount for a service, the costs of which are generally fixed. A variable fee structure can be used when the amount of service required varies. Fees can be charged periodically (such as monthly, quarterly or annually) or on a one-time basis. While legislative approval to implement fees may be required, often the actual rate and other implementation issues are set administratively, subject to legislative review or veto.

User fees can play an important role in providing funds necessary to finance the 1986 amendments to the Safe Drinking Water Act. User fee systems are more flexible and adjustable than taxes, and also may generate public support by linking the costs of a particular service to its beneficiaries. Exhibit 5 shows examples of user fees that could be used to fund State drinking water programs.

Exhibit 5

Examples of User Fees

- **Permit Fees** - charge for permits issued by State.
- **Application Fees** - charge for processing an application for a permit, variance, etc.
- **Installation Fees** - charge for the installation of equipment.
- **Certification and Inspection Fees** - charge for inspecting and/or certifying a facility or activity.
- **Construction and Review Fees** - charge for the review of construction or other plans for public water supply systems.
- **Discharge and Disposal Fees** - charge for the discharge or disposal of materials.
- **Monitoring, Sampling, and Laboratory Fees** - charge for monitoring operations, sampling water supplies, and laboratory analysis.
- **Impact Fees** - charge for the incremental burden (or "impact") placed on public services by new development.
- **Water Use Fees** - charge based on the flow of water.
- **Hunting and Fishing License and Campground Use Fees**

Dedicated Taxes. Most tax revenue raised by State governments flows directly into their general funds, rather than being dedicated or "earmarked" for specific purposes. Since 1954, when over half of all State tax revenues were dedicated for specific uses, the proportion of tax revenues earmarked for such purposes has fallen dramatically. A recent study conducted by the National Conference of State Legislatures (NCSL) entitled *Earmarking State Taxes* found that in 1984 only 21 percent of State tax revenue were earmarked for specific purposes. In spite of this decline, the number of earmarking provisions adopted by State legislatures has increased significantly since 1979, and dedicated revenues will continue to represent a significant proportion of State budgets.

According to the NCSL study, the most widely earmarked taxes are those on motor fuels (levied by 48 States), motor vehicle registration fees (42 States), alcoholic beverages (33 States), general sales taxes (29 of 45 States), and tobacco (27 States). In addition, a portion of the individual income tax was earmarked in 16 States, while the corporate income tax was earmarked in 14 States. The most common recipients of earmarked funds are highway programs, local governments and education. No information was available on the extent to which State taxes have been dedicated to environmental programs.

Taxes are usually employed when the benefits of a program are large or widespread. Unlike user fees and charges, there need be no direct relationship between an individual tax and its use as a funding source for government programs. Revenues raised from taxes in 1988-89 amounted to 25 percent of AFM revenues (excluding bond proceeds) in that period according to the study published by the National Governors Association (*Funding Environmental Programs: An Examination of Alternatives*).

Given the public's increasing awareness of environmental issues, including the need for safe drinking water, it may be possible to develop public support for dedicated or earmarked State taxes for drinking water programs. State taxes that could be used to fund all or part of State drinking water programs include: sales, income, sumptuary and excise taxes (see Exhibit 6). Because of the relatively small size of State drinking water programs, when compared to the available revenue stream, only a small proportion of revenues from such taxes would need to be dedicated to the program's funding.

There are several advantages and disadvantages to dedicating tax revenues for specific purposes. Whether these advantages and disadvantages apply to a particular AFM will depend on the specific situation in which funds are being earmarked. There are three major advantages to using dedicated or earmarked taxes for specific purposes, such as the funding of State drinking water programs:

Exhibit 6
Examples of Taxes Potentially Available for
Use by Drinking Water Programs

Sales taxes are levied on a broad range of goods not subject to resale. A use tax is almost always adopted with the sales tax, and is levied on taxable items purchased in another jurisdiction, but brought back into the taxing jurisdiction.

Income taxes are levied on the incomes of both individuals and corporations.

Sumptuary taxes are levied on commodities such as cigarettes and alcohol. Taxes on these items have been effective revenue generators because consumer demand for these products does not fall significantly when prices are increased.

Excise taxes are levied on specific goods or types of transactions. Examples include hotel/motel occupancy and motor fuel taxes. Excise taxes may also be levied on the privilege of conducting a certain type of business or transaction.

- in some instances, the benefits of the program can be linked to its financing; in other words, those who receive the benefits can be expected to pay for them;
- a minimum level of expenditures for the program can be ensured along with the continuity of the program and its activities; and
- the public may be induced to support new or higher taxes because the increased tax revenues are to be dedicated to a particular program or activity.

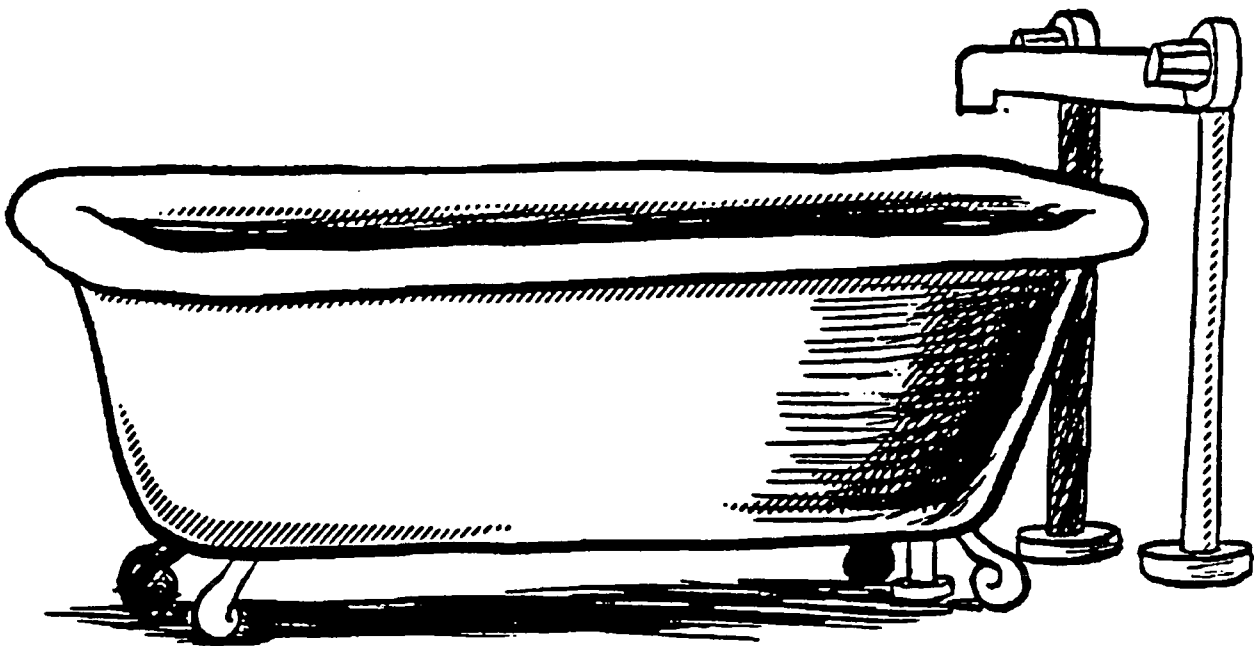
In certain situations, there can be several disadvantages to dedicating tax revenues:

- budgetary control may be hampered because it is believed that programs should be evaluated in terms of the total funds that are available;
- resources may be misallocated with excess funds going to some programs, while others are underfunded;
- the revenue structure may become inflexible, making it difficult for the legislature to adjust to changing economic and fiscal conditions; and

- the policymaking prerogatives of the executive and legislative branches of government may be infringed upon because earmarking or dedicating tax revenues removes a portion of governmental activities from their periodic review and control.

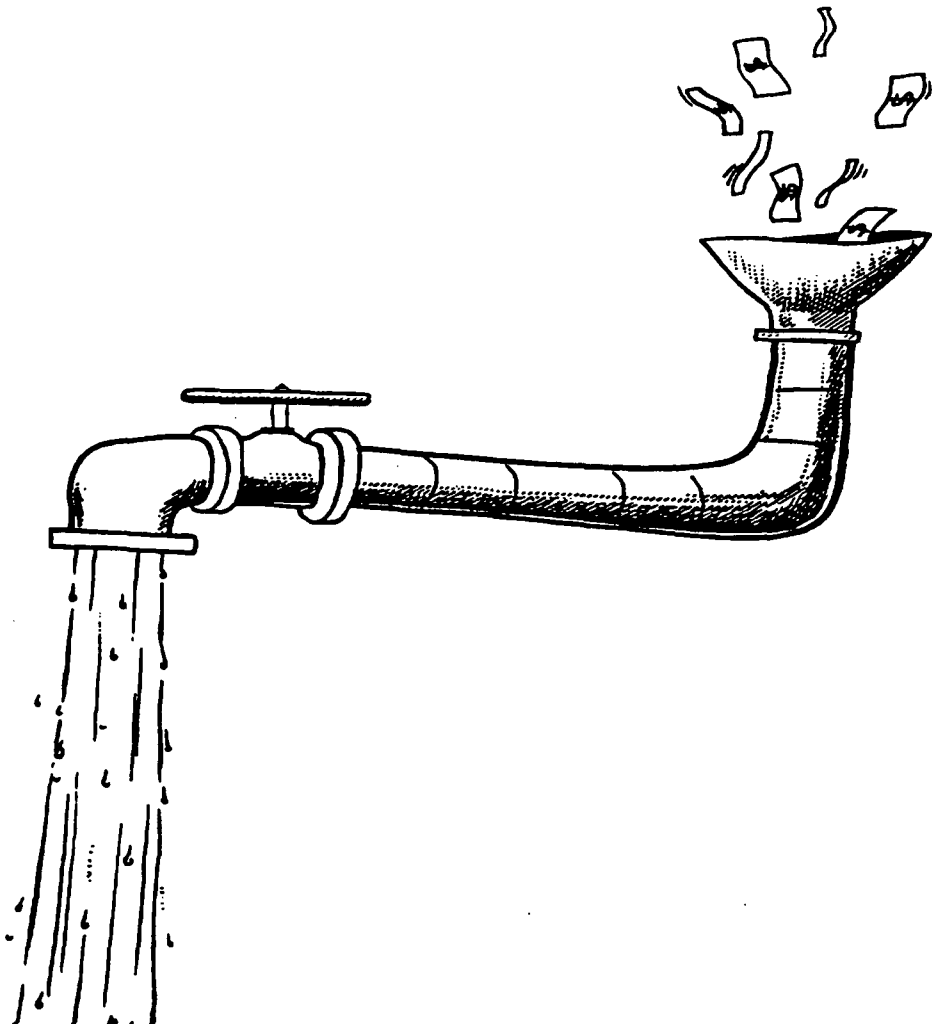
Fines and Penalties. Fines and penalties can be imposed for violations of State or federal safe drinking water rules and regulations. They are designed with the goal of promoting changes in behavior, rather than providing revenues to fund drinking water program operations. Revenues from fines and penalties are generally considered to be too unreliable for such purposes. Fines also tend to require extensive inspection, monitoring and enforcement, making the costs of some penalty systems economically inefficient.

The effectiveness of fines depends to a large extent on the ability of regulators to identify and detect potential violators. Regulators usually have considerable discretion in levying and collecting fines and penalties from program violators, particularly where the rule violation was unintentional or was the result of a lack of financial resources.



Conclusion

Implementation of regulations resulting from the SDWA amendments will require significant funding adjustments. In past years, most State drinking water programs relied almost entirely on State general fund appropriations and federal grants-in-aid for program operating and capital expenses. Due to the size of the financial demands being placed on these programs by new SDWA requirements, it is widely believed that additional sources of funding will be needed to ensure compliance. Because of this anticipated shortage of funds, many States are turning to alternative financing mechanisms (AFMs) as a means of funding all or part of the costs of their drinking water programs. Of particular importance to these programs are revenues from user fees and dedicated taxes. And, as demonstrated by the case studies in the next section, the benefits of early and ongoing public involvement in promoting adequate funding for State drinking water programs cannot be overemphasized.



SECTION II: CASE STUDIES

State experiences with the use of alternative financing mechanisms (AFMs) have been mixed. In some States, a consensus has formed among legislators, drinking water program officials, the public, and other interested parties in support of the use of AFMs to fund drinking water program operations. In other States, the use of AFMs has been disavowed, or has been relegated to a minor role in the funding of the drinking water program.

There are a number of reasons why AFM use has been limited in some States, including:

- the belief that the strong State interest in ensuring public access to a safe supply of drinking water can best be ensured by the use of general revenues;
- a history of general fund financing of the drinking water program;
- favorable State fiscal conditions;
- the belief that AFMs are taxes in disguise;
- the belief that the imposition of AFMs would have a negative impact on the economy; and
- the fact that drinking water program needs are largely unrecognized in some States.

There are a number of reasons why AFMs are being used to a greater extent in other States. Those reasons include:

- the belief that the increasing financial demands being placed on the drinking water program by current and new federal requirements will require the identification of new sources of revenue to ensure adequate program funding;
- greater public awareness of environmental problems which has resulted in a greater willingness on the part of the public to pay for drinking water programs when the money is clearly targeted at the program;
- the belief that users should pay for the benefits of certain government programs; and
- poor economic conditions which prevent full State government funding of the drinking water program.

In spite of the mixed record of success in promoting AFM use among the States, the use of AFMs can be expected to increase in the future as new EPA drinking water regulations are developed and the costs of compliance with those regulations rises. In this section, the experiences of nine State drinking water programs with the use of AFMs will be explored in greater detail.

Iowa Water Supply Section

The Water Supply Section, responsible for the administration of the State drinking water program, is located organizationally within the Environmental Protection Division of the Department of Natural Resources. Its FY90 budget was \$763,000, of which \$572,000 came from the federal government, and the balance from the State general fund.

Although the use of AFMs to directly support the drinking water program is not currently a policy priority in the State, several fees indirectly provide funding for it. These fees include: community and noncommunity operation permit fees, construction permit fees and lab certi-

Iowa at a Glance

Fiscal Year 1990 Drinking Water Budget

EPA PWS Grant	\$572,000
State Appropriation	<u>191,000</u>
Total	\$763,000

Alternative Financing Mechanisms in Use

Operation Permit Fees: adopted in 1983; charged to community and noncommunity facilities; fees for community facilities range from \$60 to \$2,000, depending on the size of the population served; fees for noncommunity facilities are \$30; collected periodically; revenues are not dedicated to the drinking water program.

Construction Permit Fees: adopted in 1983; charges for new and modified facilities; fees vary based on type of facility under construction or improvement; collected periodically; revenues from this fee are not dedicated to the drinking water program.

Lab Certification Fees: adopted in 1983; charged for certification of quality of laboratory work performed at local facilities; fee varies depending on extent of work required; revenues are not dedicated to the program.

fication fees. These fees are not dedicated sources of revenue for the drinking water program, however, because they are deposited directly into the State general fund. The drinking water program receives an annual appropriation for program operations unrelated to the amount of fees generated, although the amount of fee revenue has tended to approximate the size of the annual appropriation. Program officers estimate that such fees generate between 60 and 80 percent of the 25 percent State match to federal funds.

Operation Permit Fees. The operation permit fee is charged to community and noncommunity facilities. Community operation permit fees are for facilities serving at least 25 persons year round with at least 15 service connections (as of FY89, Iowa had 1,161 community public supply systems). Fees are based on the size of the population served, with biennial fees ranging from \$60 to \$2000. Noncommunity facilities are facilities serving transient populations, such as business establishments. Biennial fees for noncommunity facilities have been fixed at \$30.

Construction Permit Fees. Construction permit fees are charged for new and modified facilities, with fees varying based on the type of facility. For example, construction of a water main would require the payment of a permit fee of \$50, while construction of a well would cost \$125.

Lab Certification Fee. This fee is charged to cover the cost of certifying the quality of lab work at local facilities. The fee rate is variable depending on the required work and expense of performing the certification.

Fines and Penalties. Fines for violations of drinking water regulations range up to \$1,000. Revenues from fines and penalties are also deposited directly into the State's general fund.

Summary. Although the current fee structure could be altered through the rules process, there does not appear to be any inclination to raise fee rates or impose additional fees at this time. It was not clear what course of action would be taken to ensure continued compliance with federal drinking water regulations.

Contact:

Dennis Alt
Environmental Program Supervision Section
900 E. Grand
Des Moines, Iowa 50319-0034
(515) 281-8998

Louisiana Drinking Water Program

Louisiana's experience with alternative financing mechanisms has been unsatisfactory, primarily due to organized opposition among municipal and other interest groups, and the State is presently shifting toward greater use of general fund revenues to finance its drinking water program. The program is located organizationally within the Department of Health and Hospitals. The FY90 budget for the program is approximately \$2.4 million, which consists of a \$1 million State general fund appropriation, a \$700,000 EPA grant, and \$680,000 in revenues from the annual service connection fee. The Department of Health and Hospitals has requested a \$2.2 million increase in general fund appropriations for the drinking water program for fiscal year 1991, in order to meet new EPA requirements.

Annual Service Connection Fee. Louisiana adopted an annual service connection fee in 1988. Public water supply systems are assessed a fee based on the number of connections to the system. The amount of the fee charged is based upon total connections, and does not distinguish among active or inactive connections, churches or nonprofit consumers, or government facilities. Water supply systems are grouped according to size with higher fees levied against systems with more connections. When adopted, the minimum fee was \$400 for water supply systems with fewer than 26 connections, while the top fee was \$3,000 for systems with more than 25,000 connections (only six water systems fell into this class). At present, there are 1,460 community public water supply systems in the State.

The current fee structure is expected to yield approximately \$680,000 in FY90. This represents .29 percent of the program's \$2.4 million budget. However, political resistance to the fee has

Louisiana at a Glance

Fiscal Year 1990 Drinking Water Budget

EPA PWS Grant	\$700,000
Annual Service Connection Fee	680,000
State Appropriation	<u>1,000,000</u>
Total	\$2,380,000

Alternative Financing Mechanisms in Use

Annual Service Connection Fee: adopted in 1988; fee charged to water supply systems based on the total number of connections; collected annually; revenues of \$680,000 anticipated in FY90; revenues dedicated to funding of the drinking water program.

been strong. The Louisiana Municipal Association (LMA) led a coalition of organizations which opposed the fee, and urged local water supply systems (run primarily by municipal governments) not to pay. The basis of their opposition has been that safe drinking water is "a vital State concern" and ought therefore to be a State-funded activity. Through LMA's organized opposition, the fee collection rate was reduced to 80 percent in FY89. This low rate of compliance has contributed to reluctance on the part of municipally-operated water supply systems to pay the fee in subsequent years.

For FY90, the minimum fee was reduced from \$400 to \$25, in order to ease the burden on the smallest water supply systems. For the most part, the beneficiaries of the change were trailer parks and subdivisions, and not members of the State municipal association. In the proposed FY91 State budget, an increase of \$2.2 million has been included for the drinking water program, with revenues to come entirely from a State general fund appropriation. The drinking water program's administrator has indicated that the annual service connection fee may be eliminated in a future year.

The annual service connection fee has been an unsatisfactory revenue instrument in Louisiana, primarily because it failed to gain the acceptance of those paying the fee. Although the costs of administration have been moderate, approximately five percent of revenues collected, little effort has been expended on improving the fee's collection rate.

Fines and Penalties. At present, Louisiana does not impose any fines or penalties on local water supply systems.

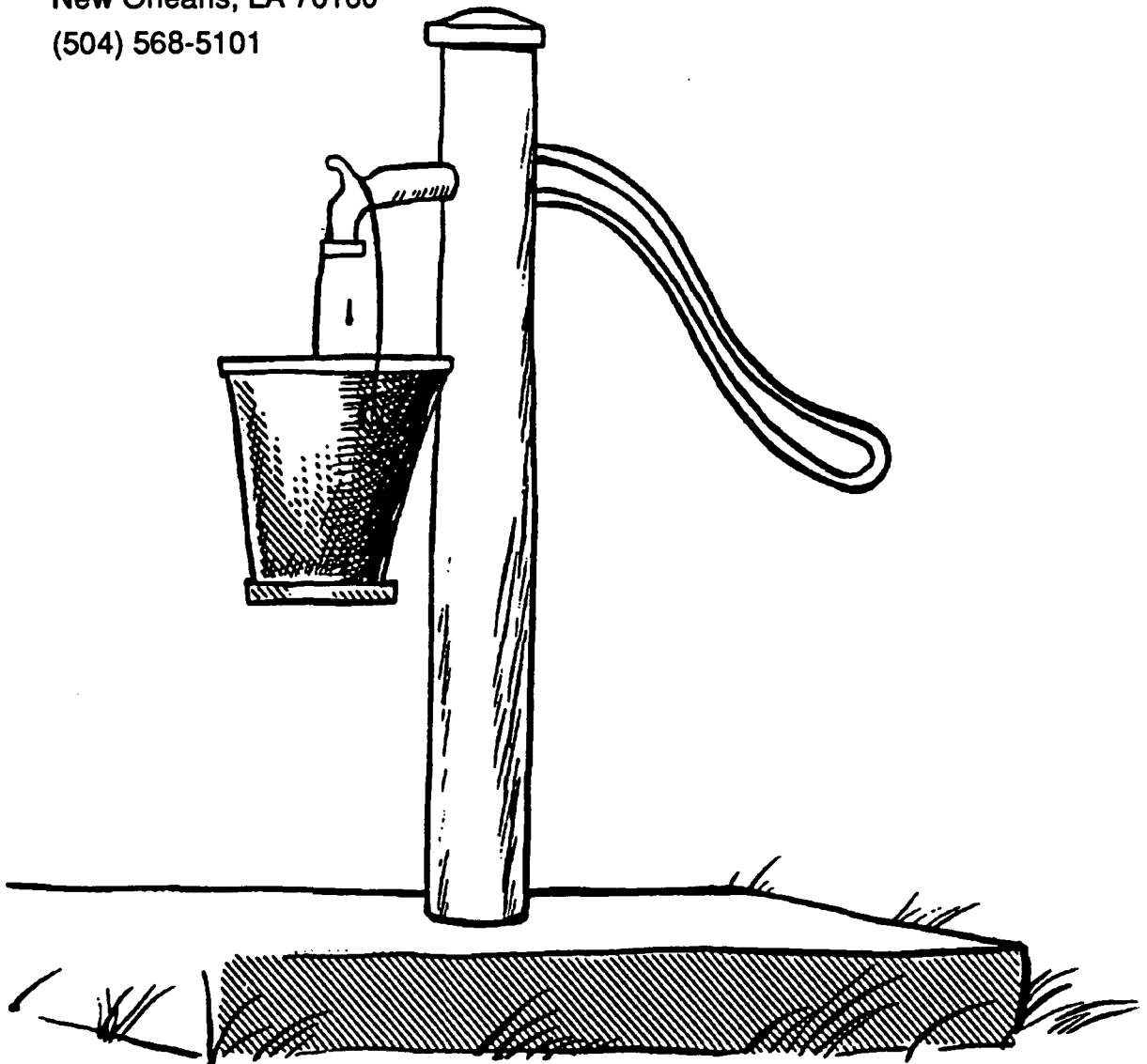
Future AFMs. A usage-based fee borne by consumers is currently under consideration. Such a fee would be more politically feasible, but its imposition may not be possible due to the fact that a number of water supply systems do not meter the water usage of individual customers. Additionally, because of a continuing decline in State population, revenues from a consumption-based fee would likely decrease over time.

Service-based fees are also a possibility. Louisiana currently charges a fee for bacteriological testing. This \$75 fee is charged only when a Department of Health and Hospitals technician tests the water system of a private home as required for FHA or VA mortgage financing, so public water systems do not pay the fee. Were a service fee adopted for laboratory testing of public water systems, the same opposition which has plagued the connection fee could crop up, since municipal water supply systems would bear the primary burden of the fee.

Summary. Louisiana's declining population and outmoded infrastructure constrain the possibilities for use of consumer-based fees, while strong political resistance by municipal groups to use of the annual connection fee has prevented serious consideration of other AFMs. The State's chosen course of action for the coming fiscal year and the foreseeable future is to employ State general fund revenues to pay the State's increasing costs of ensuring safe drinking water for the public.

Contact:

T. Jay Ray
Program Manager
Safe Drinking Water Program
Department of Health and Hospitals
P.O. Box 60630
New Orleans, LA 70160
(504) 568-5101



Massachusetts Water Quality Assurance Program

The Division of Water Supply (DWS) is part of the Department of Environmental Protection (DEP). Its FY90 budget is \$2.4 million, which consists of a \$2 million State general fund appropriation and a \$400,000 EPA grant. The Water Quality Assurance Program (WQA) is a part of the DWS. Currently, 24 employees of the DWS staff are devoted to water quality assurance. Their responsibilities include:

- State regulation of water quality;
- cross connection control; and
- technical assistance and outreach.

As a result of the consolidation of all DEP budgets, the budget for DWS is no longer listed as a separate line item in the legislative appropriation for the Department. Instead, in consultation with the legislature, the Commissioner of the Department of Environmental Protection establishes a priority list for spending the appropriated funds. This has created some uncertainty as to the level of DWS funding.

It is estimated that new federal drinking water regulations will require the WQA to increase staff levels by 41 full-time employees. However, reprioritization due to the current budget crisis has already caused the loss of a number of full-time positions because of the imposition of a hiring

Massachusetts at a Glance

Fiscal Year 1990 Drinking Water Budget

EPA PWS Grant	\$ 400,000
State Appropriation (estimated)	<u>2,000,000</u>
Total	\$2,400,000

Alternative Financing Mechanisms in Use

Cross Connection Fee: charge of \$25/device; collected annually; revenue of \$261,000 anticipated in FY90; revenues are not dedicated to drinking water program, but deposited into State's general fund.

freeze and staff attrition. Because of this staff shortage, several services previously available to local water supply systems have been eliminated, including analytical testing at the State laboratory.

Cross Connection Fee. For several years the program has charged a cross connection fee of \$25 per device. Revenues from this fee are not dedicated to program funding, but are deposited directly into the State's general fund. In FY89 this fee raised \$300,000 (which included previously owed amounts), but revenues are expected to fall to \$261,000 in FY90. To date, the revenues raised through the cross connection fee have been approximately equal to the costs of the services provided. The actual costs of program operations in Massachusetts are difficult to identify, however, due to the lack of line item separation in the budget and accounting detail.

Fines and Penalties. Since 1986, all fines and penalties for violating drinking water regulations have been paid into the State general fund. Like most States, fines and penalties are flexible and negotiable, depending on ability to pay and the seriousness of the violation. In FY89, individual fines and penalties ranged from \$15,000 to \$80,000, but due to the lack of detailed accounting information, it was impossible to determine the total amount of revenues collected.

Future AFMs. As a result of budget cutbacks, the Massachusetts legislature is reviewing the imposition of an annual service fee on nonmunicipal facilities to finance the operations of all DEP programs including DWS. Although the fee had been under discussion for several years, it was only as a result of the current fiscal situation that the legislative climate has allowed for review of the creation of a self-supporting enterprise fund for environmental purposes.

Support for the creation of the enterprise fund was enhanced through consultation with several groups, including the Associated Industries of Massachusetts (AIM). The DWS discovered that much of the opposition to user fees could be minimized through the use of an educational program.

Each nonmunicipal local water supply system will be charged the annual service fee. The revenues are expected to just cover the costs of operations, with a rate adjustment planned every two years. Fee revenue will be deposited into an enterprise fund dedicated to the Department of Environmental Protection. At the present time, there are no plans to provide a line-item for the DWS budget in the legislative appropriation for the Department of Environmental Protection, or to specifically dedicate the fee revenue to DWS.

It is anticipated that the annual service fee plus the new or modified permit fee will be able to

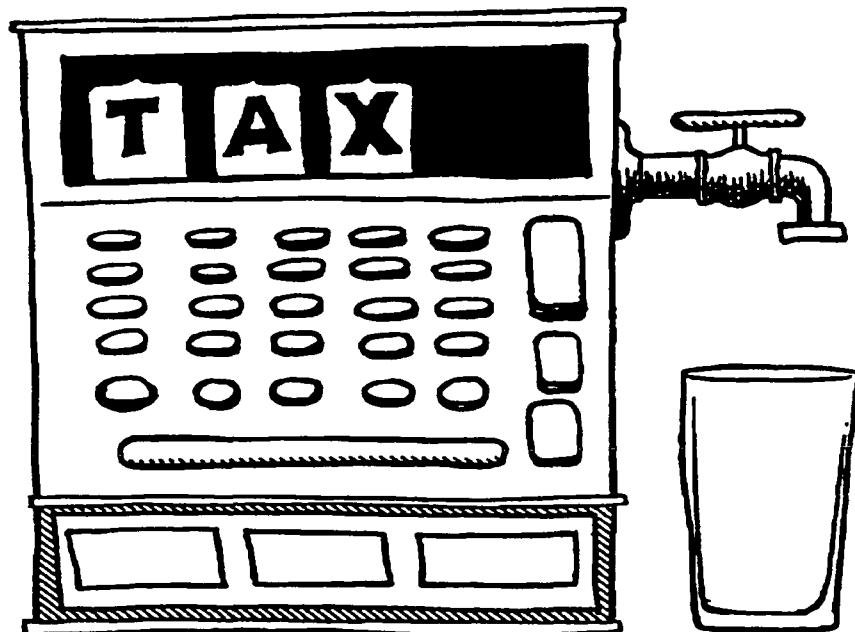
raise all the monies needed to finance compliance with the requirements of the 1986 SDWA amendments. Although the costs of the annual service fee will be passed on to water customers, the fee is not directly linked to water users as is the case with Oklahoma's annual service fee.

A preliminary study of an annual compliance fee for municipally-owned systems has also been initiated.

Summary. Massachusetts' annual service fee is a break from tradition in financing State operations in New England. Like a number of other States, Massachusetts is facing major cash needs in a time of economic slowdown. Its ability and willingness to adopt a far-reaching fee system to support the needs of all of its environmental programs, including the Division of Water Supply and the Water Quality Assurance Program, reflects the importance of planning in protecting vital environmental resources.

Contact:

Yvette DePeiza
Manager, Water Quality Assurance Program
Division of Water Supply
Department of Environmental Protection
1 Winter Street, Ninth Floor
Boston, MA 02108
(617) 292-5857



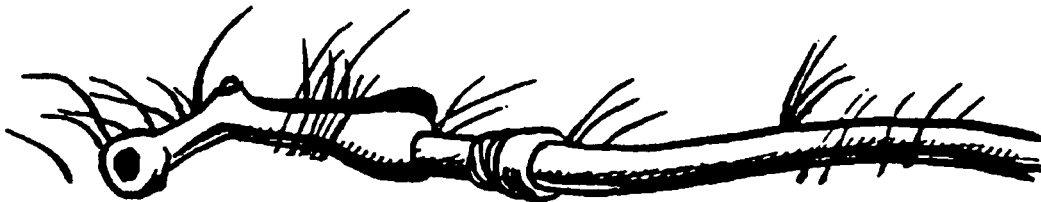
Minnesota Water Supply and Well Management

Responsibility for the State's drinking water program lies with the Water Supply and Well Management section of the Department of Health. Its FY90 budget was \$3.4 million, which consisted of an EPA grant of \$1 million, a State general fund appropriation of \$2.3 million, and revenues from plan review fees of \$100,000. An additional \$1.8 million in fees is collected by the wellwater program in order to cover its costs of operation.

Minnesota's approach to planning and financing its drinking water program may serve as a model for other programs. Public education and political consensus have made possible a plan that will provide necessary revenues and is palatable to the State's citizenry. The plan calls for increased reliance on State general fund revenue as the cost of monitoring drinking water quality rises in coming years, but provides for the use of several AFMs.

A health department task force studied alternatives for two years. Its report emphasized the public sentiment that safe drinking water is a State obligation and should be financed by the general fund. The legislature has accepted its responsibility to fund the greatest share of costs for the drinking water program, including the cost of regulatory monitoring of public water supplies. However, in largely rural Minnesota, thousands of families and businesses derive water from private wells rather than community water systems. The State's wellwater program is funded entirely with AFMs.

The cost of administering the provisions of the Safe Drinking Water Act may be \$4.3 million for FY92 and \$5.6 million in subsequent years. These figures do not include one-time start-up costs and acquisition of necessary new laboratory equipment, which may require an appropriation of \$8.6 million. The health department anticipates that the legislature will provide the necessary funds through general fund appropriations.



Minnesota at a Glance

Fiscal Year 1990 Drinking Water Budget

EPA PWS Grant	\$1,000,000
Plan Review Fees	100,000
State Appropriation	<u>2,300,000</u>
Sub-total	3,400,000

Wellwater Program Fees	<u>1,800,000</u>
Total	\$5,200,000

Alternative Financing Mechanisms in Use

Plan Review Fee: fee charged to water supply systems for review of construction or improvement plans; collected periodically; revenues of \$100,000 anticipated in FY90; revenues dedicated to funding of the drinking water program.

Wellwater Permit Fees: includes charges for well permits, variances and various licenses; collected annually as well as periodically; revenues of \$1,800,000 anticipated in FY90; revenues dedicated to funding of wellwater program.

Plan Review Fees. Minnesota has approximately 1,000 community water systems, and more than 11,000 noncommunity systems. FY90 program costs are \$3.4 million (not including the \$1.8 million for the wellwater program), of which only three percent (\$100,000) are derived from plan review fees. The fee is the only AFM charged to community systems.

Plan review fees are determined according to the type of plan and the size of the project. Plans for construction or extension of water systems must be reviewed by State health department officials for safety and conformity to regulation. These fees range from \$100 to \$1,000. Plan review fees are not viewed as a source of increased revenues in coming years, since fees can only reflect cost of the plan review service provided.

Wellwater Program. Minnesota's Wellwater Program, though not strictly under the purview of the Safe Drinking Water Act, is of interest for its extensive use of AFMs. This program, which will cost \$1.8 million in FY90, is financed entirely by permit and other fees.

The approach to revenue generation for the well program has been to impose numerous small fees. The current fee schedule includes charges for variances; licenses for explorers, hoist operators, and pump owners; pumping fees; inspection fees; and penalties for late payments. These fees range from \$50 for a well permit for a single-family home to \$500 in fees for a large dewatering well project. Charges are established in rule, and vary according to capacity and type of well.

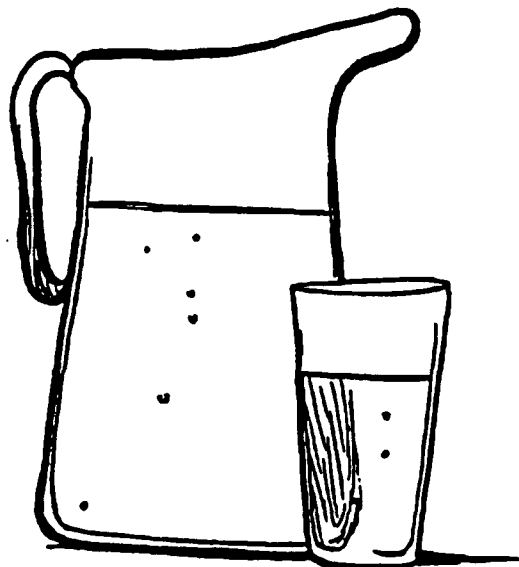
Despite the number of fees imposed, the cost of collection is estimated at four percent of revenues received. The equivalent of 4-5 full-time employees is committed to the collection and administration of AFM revenues.

Minnesota law requires program-generated revenues to approximate costs. Therefore, the total which may be collected is effectively capped, but there is no expressed limit for rates or maximum take for each fee. These fees are reviewed annually to ensure that they are in line with program costs.

Summary. Although Minnesota has decided to rely heavily on State general fund revenues to finance the costs of its drinking water program, it will continue to look to AFMs to finance the costs of its wellwater program. The primary reason for the State's continued reliance on the general fund to finance its drinking water program is philosophical--safe drinking water is considered to be a significant State interest. This should not detract from the considerable success enjoyed by the wellwater program in financing its operations.

Contact:

Gary Englund
Chief, Water Supply and Well Management Section
Department of Health
925 Delaware Street, SE
P.O. Box 59040
Minneapolis, MN 55459-0040
(612) 627-5133



Nevada Department of Human Resources

Supervision of Nevada's drinking water program is the responsibility of the Department of Human Resources' Consumer Health Protection Services. Its FY90 budget is \$502,000, which consists of an EPA grant of \$370,000, a State appropriation of \$42,000, and revenues from AFMs and other sources of \$90,000.

Consumer Health Protection Services, which performs drinking water activities, will need to rely on AFMs in coming fiscal years, as program costs multiply. Anticipated new federal drinking water regulations will require additional drinking water program staff and the upgrade of laboratory capability and capacity. Estimated increased costs include \$711,000 on an annual basis for operating expenses, and a one-time equipment purchase of \$460,000. Consumer Health Protection Services has requested an increase in annual service connection fee rates in order to generate an additional \$300,000 annually.

Annual Service Connection Fee. Annual service connection fees provide about \$53,000 per

Nevada at a Glance

Fiscal Year 1990 Drinking Water Budget

EPA PWS Grant	\$370,000
Annual Service Connection Fees	53,000
Plan Review Fees	11,000
County Matching Funds	26,000
State Appropriation	<u>42,000</u>
Total	\$502,000

Alternative Financing Mechanisms in Use

Annual Service Connection Fees: fees range from \$60 to \$400 depending on the number of system connections; collected annually; revenues of \$53,000 expected in FY90; revenues from fee are dedicated to the drinking water program.

Plan Review Fees: fees range from \$75 to \$150 depending on the type of facility under review; collected periodically; revenues of \$11,000 expected in FY90; revenues from fee are dedicated to the drinking water program.

year. Community and noncommunity water systems pay according to the number of system service connections. At present, the fees range from \$60 to \$400. Ten hours of an employee's time per month is required for administration of this fee program.

In order to meet increased costs in 1991 and subsequent years, Consumer Health Protection Services will ask Nevada's legislature to authorize the State Board of Health to adopt changes in the fee schedule to support new staff. This new schedule would require noncommunity systems to pay a flat \$150 charge per year. Community systems, on the other hand, would be charged based on the number of system service connections, with fees ranging from \$200 to \$12,000. (As of FY89, Nevada had 328 community public water supply systems.)

The new fee schedule will partially shift the burden of funding of the State safe drinking water program to the regulated community. It is estimated that fees paid by the smallest systems would increase by 60 percent, while the largest systems (i.e., Carson City, Las Vegas and Reno) would pay 25 times more on an annual basis.

Plan Review Fees. Fee-for-service revenue is obtained through plan review fees. Nearly 10 percent (\$11,000) of the drinking water program budget is provided through plan review fees. However, the number of expansion projects and facility improvements is not expected to increase in coming years. Consequently, plan review fees will not provide an additional source of revenue in future budgets.

Administrative costs for collecting the plan review fees are less than one full-time employee. However, because so few projects are reviewed and so little money collected, the cost of administration is a substantial portion of revenue collected from Plan Review Fees.

County Matching Funds. Two counties that have been delegated responsibility for implementing portions of the drinking water program in Nevada provide additional revenues in support of the drinking water program. These revenues amounted to \$26,000 in FY90.

Fines and Penalties. Nevada does not impose fines and penalties, and none have been proposed for FY91.

Summary. Nevada's 1990 drinking water program is financed through various State sources and an EPA grant. The increased costs of ensuring a safe drinking water supply are expected to be met through an increase in the annual service connection fee rate.

Contact:

Jeff Fontaine
Supervisor, Public Health Engineering
Consumer Health Protection Services
505 King, Room 103
Carson City, NV 89710
(702) 687-4750

New Hampshire Drinking Water Protection Program

New Hampshire's Drinking Water Protection Program is administered by the Water Supply Engineering Bureau (WSEB) of the Department of Environmental Services (DES). The WSEB has oversight responsibilities for the approximately 2,770 public water supply systems (447 of which are community systems) in the State. The FY90 budget for the WSEB was \$725,000, which consists of a \$375,000 EPA grant and a State general fund appropriation of \$350,000.

New Hampshire currently imposes several fees and charges for drinking water-related activities. Revenues from these sources generally do not directly support the operations of the

New Hampshire at a Glance

Fiscal Year 1990 Drinking Water Budget

EPA PWS Grant	\$375,000
State Appropriation	<u>350,000</u>
Total	\$725,000

Alternative Financing Mechanisms in Use

Operator Certification Fees: fee is \$40 every two years; revenues of \$25,000 a year; revenues are dedicated to the drinking water program.

Laboratory Fees: fee rates vary; 50 percent of the revenues go to the State general fund while the balance is available to the laboratory.

Design Review Fees: fee is \$45 per residential unit; annual revenues of \$100,000; revenues are not dedicated to the drinking water program.

drinking water program, because they are deposited directly into the State's general fund. Those fees are:

Operator Certification Fees. This fee is charged to operators for renewal of their certification to operate a water treatment or distribution system. The fee is \$40 on a biennial basis and raises approximately \$25,000 a year. Revenues from this fee are deposited in a restricted account.

Laboratory Fees. These fees are charged for a variety of tests performed in the laboratory. These fees are based on the type of test performed and are levied at rates approximately equal to cost.

Design Review Fee. This fee is charged for the review of water system designs for new systems only. The fee is currently \$45 per residential unit (or 300 gpd equivalent), with annual revenues of \$100,000.

Fines and Penalties. New Hampshire achieved administrative fine capability in 1988. Revenues from this source are deposited into the State general fund. The enforcement of fines and penalties has been given a low priority in recent years.

Financing New U.S. EPA Requirements

Despite rapid population growth and significant increases in the number of public water supply systems operating in the State, the WSEB staff of 17 full-time employees has increased by only 3 positions since 1980. The WSEB believes that without additional funding it will be unable to meet its increased responsibilities in the following areas:

- new federal requirements;
- enforcement; and
- inspection and sampling of noncommunity public water supply systems.

In 1990, the WSEB received legislative authority for a permit-to-operate fee which would provide funds to support the expanded activities of the drinking water program. In addition, the fee amount was promoted as a method of reducing the State general funds currently used for this purpose.

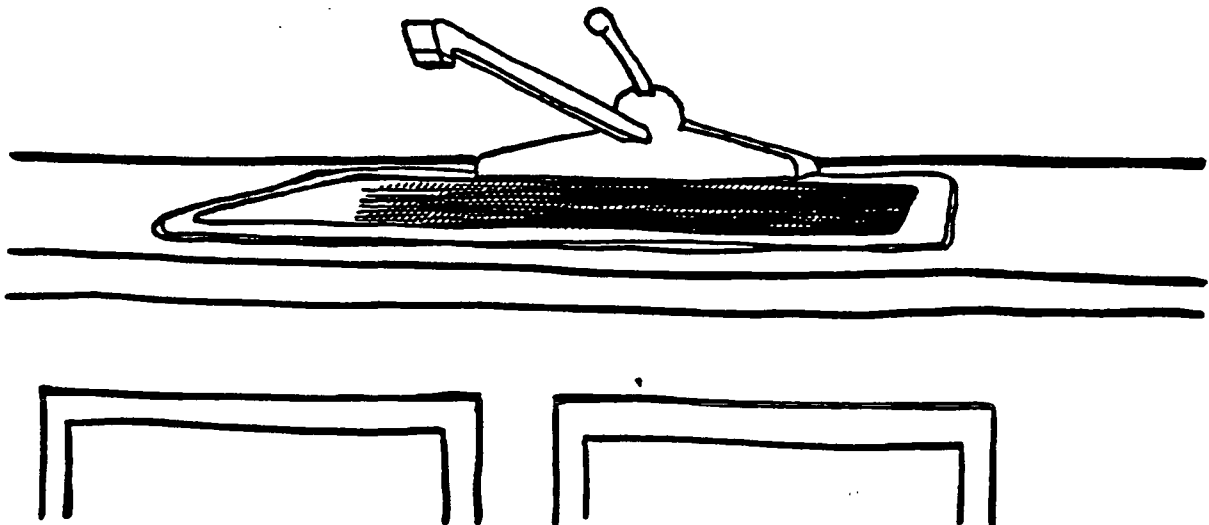
Permit-to-Operate Fees. Fees will be charged to community public water supply systems (\$200 annually) and nontransient, noncommunity public water supply systems (\$200 annually), while noncommunity systems would not be charged. It is estimated that the proposed fee will generate \$375,000 annually, with funds not utilized at the end of each year deposited in the State's general fund.

The revenues obtained from the permit fees would enable WSEB to create an additional 7 positions.

Summary. New Hampshire intends to substantially reduce its general fund expenditures for its drinking water program through the introduction of permit-to-operate fees. Revenues from this fee would directly support the operations of the drinking water program.

Contact:

Bernard Lucey
Department of Environmental Services
Water Supply and Pollution Control Division
Water Supply Engineering Bureau
Hazen Drive, P.O. Box 95
Concord, NH 03301
(603) 271-3139



New Jersey Bureau of Safe Drinking Water

The Bureau of Safe Drinking Water, located organizationally within the Environmental Protection Department, is responsible for the administration of the State drinking water program. The current drinking water program budget is approximately \$4 million, of which 80 percent is raised through alternative financing mechanisms, and the remaining 20 percent funded through a federal grant. A small State general fund appropriation, providing less than 1 percent of the budget, is provided, although it has been constantly decreasing over the last few years.

The use of fees-for-service is currently a policy priority in the State, with fees charged not only for drinking water program activities, but for other programs such as water allocation, waste-

New Jersey at a Glance

Fiscal Year 1990 Drinking Water Budget

EPA PWS Grant	\$752,000
Water Delivery Tax	2,400,000
Construction Permit Fees	500,000
Other Fees	<u>400,000</u>
Total	\$4,052,000

Alternative Financing Mechanisms in Use

Water Delivery Tax: levied on water sold at the rate of 1 cent per 1,000 gallons; collected periodically; estimated revenues of \$2.4 million in FY90, \$2 million of which shall be dedicated to the drinking water program.

Construction Permit Fee: charged for the review of facility building plans; graduated fee scale linked to facility cost; collected periodically; revenues estimated at \$500,000 in FY90; revenues from this fee are dedicated to the drinking water program.

Annual Operating Fee: levied on water supply systems based on system size and need for water treatment; collected annually; revenues from this fee and the physical connection fee estimated at \$400,000 in FY90; revenues from this fee are dedicated to the drinking water program.

Physical Connection Fee: charged to industries for connection to their own source of water; fee is a flat \$200 for all industry types; collected annually; revenues from this source are dedicated to the drinking water program.

water discharge, chlorine hazard and underground storage tanks. Because of economic difficulties in the State, general fund support for the drinking water program is declining and might be phased out, making the program entirely dependent on dedicated taxes and fees. Fee rates are likely to be raised in the near future to fund positions that have previously been funded by general fund appropriations.

Taxes and fees currently in use include a tax on delivered water, a construction permit fee, annual operating fee and a physical connection permit fee. These revenue sources are described below.

Water Delivery Tax. The water tax is applied to all water sold at the rate of 1 cent per 1,000 gallons of water. The \$2.4 million in annual revenues from this tax supports the activities within the Bureau of Safe Drinking Water, the Enforcement Element, the Division of Science and Research, and other technical and administrative activities. The water tax provides over half of the drinking water program budget.

Construction Permit Fee. The construction permit fee is charged for the review of facility building plans. The charge is levied on a graduated scale linked to the cost of a facility. For facilities of less than \$250,000, 0.9 percent of construction value is charged, for facilities of \$250,000 to \$1 million, 0.6 percent is charged, and for facilities of \$1 million or more, 0.3 percent. The construction permit fee has a cap of \$12,000. Revenue from the fee is approximately \$500,000 annually.

Annual Operating Fee. An annual operating fee is levied on public water supply systems based on the size of the system and the need for water treatment. Systems without water treatment are charged lower fees. The range of fees runs from \$60 for a small nontreatment facility to \$3,280 for a large water system with a treatment facility. Revenue from the annual operating fee together with the physical connection permit fee is approximately \$400,000. At the present time, there are 630 community public water supply systems in the State.

Physical Connection Permit Fee. The physical connection fee is charged to industries for connections to their own source of water. The permit fee is a flat \$200 for all types of industries.

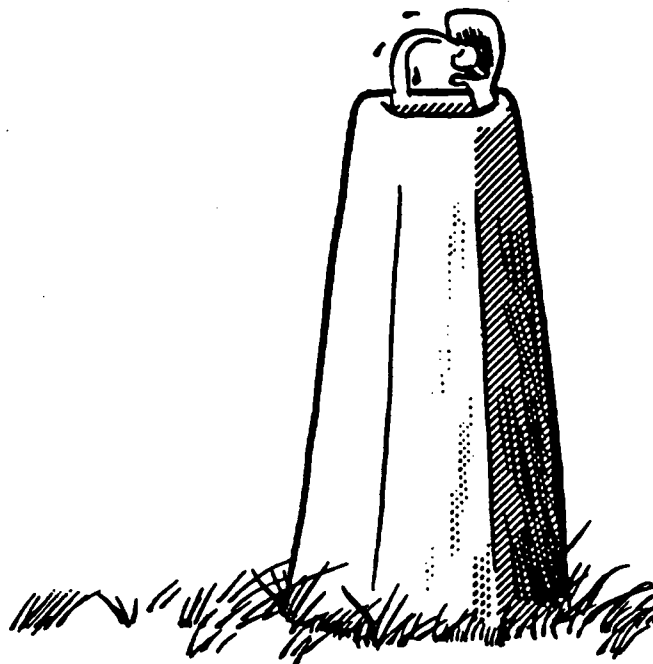
Fines and Penalties. Fines for violations of the drinking water regulations are collected by the Enforcement Element. Revenues from this source are not used for program support since they are deposited directly into the State's general fund. Fines do not raise substantial amounts of revenue, and are considered primarily to be an enforcement tool. The emphasis is more on correcting the problem than on generating revenue.

Administration. The water delivery tax is not collected by the drinking water bureau but by the State revenue collection department based on information provided by the utilities. Program officers estimate that the additional cost of collecting the tax is negligible because other taxes were already being collected from the utilities and the water delivery tax is simply an added line item on the tax bill. The fees are collected by the department's Bureau of Revenue, with less than one full-time equivalent required to process the fees. Changes in fee structure can be implemented through the rules process and fee rates are expected to be increased approximately every three to five years to cover increased costs. There is no legislative cap on the amount of fees that can be collected, but revenues will not exceed the amount needed to support the drinking water program.

Summary. New Jersey has been moving away from general fund support of its drinking water program towards increasing reliance on AFMs. Revenues from AFMs are counted on to provide most of the resources needed to meet the costs of new federal drinking water regulations.

Contact:

Barker Hamill
Bureau of Safe Drinking Water
Environmental Protection Department
401 E. State St. CN 029
Trenton, NJ 08625
(609) 292-5550



Oklahoma Public Water Supply Supervision Program

The Oklahoma Public Water Supply Supervision Program is implemented through the Water Quality Service (WQS) and the State Environmental Laboratory (SEL) of the Oklahoma State Department of Health (OSDH). The Water Quality Service is responsible for administration of the State's wastewater treatment and drinking water programs, the supervision of public bathing places (swimming pools), and other water-related activities. The WQS provides both administrative and technical assistance to water and wastewater systems under their jurisdiction and the SEL provides sampling and analytical support.

Approximately \$1.3 million is utilized for the supervision and monitoring of the State's drinking water supplies. This \$1.3 million is divided between the WQS drinking water program for supervision, enforcement, and technical assistance and the SEL for public water system sample collection and analyses.

Because of financial difficulty and the unwillingness or inability of the State legislature to increase appropriations, the WQS has been at the forefront of the use of alternative financing mechanisms. Since 1987, the WQS has not received a State general fund appropriation to support its operations. The OSDH's public water supply FY90 budget consists of an EPA grant

Oklahoma at a Glance

Fiscal Year 1990 Drinking Water Budget

EPA PWS Grant	\$610,200
Annual Service Fee	600,000
Planning & Design Review Fee	<u>139,000</u>
Total	\$1,349,200

Alternative Financing Mechanisms in Use

Annual Service Fee: created in 1987; based on actual cost of service - not to exceed a charge of \$1.20/water meter; collected annually; total revenue of \$600,000 (\$450,000 to state laboratory, and \$150,000 to fund drinking water program); revenues from fee are dedicated to the drinking water program.

Planning & Design Review Fee: created in 1984; charge of \$.10/linear foot with a \$2,000 maximum; charges on all new or expanded facilities; revenues of \$139,000 are dedicated to drinking water program.

(\$610,200) and revenues from AFMs, which consist of an annual service fee and a planning and design review fee.

Annual Service Fee. The annual service fee, instituted in 1987, is a fee used to fund the water supply operations of the OSDH. Charged annually to investor- and publicly-owned water supply systems operating in the State, the fee is based on the actual cost of service, but not to exceed the rate of \$1.20 per water meter per year. In FY89, the fee generated approximately \$600,000, which was apportioned between the drinking water program (\$150,000) and the State laboratory (\$450,000), and funded the following activities:

- technical assistance to local water systems (WQS);
- chemical analysis for monitoring and compliance purposes (laboratory); and
- monitoring and enforcement of regulations (laboratory, WQS).

Established annually by the State Board of Health, the fee for service is subject to review and veto by the State legislature and governor. Only 1,200 of the 1,320 water systems in the State are subject to the fee. Revenues from this fee cover about half of the costs of providing the necessary support.

As one of the first States to institute a general fee for drinking water programs, Oklahoma was careful to build support in the regulated field, or at least to minimize opposition. In consultation with the Oklahoma Municipal League and the Oklahoma Rural Water Association, it was decided to introduce a fee to replace the lost State appropriations. State officials felt that past experience with implementation of the planning and design review fee and their preparatory work for the introduction of the annual service fee helped ease acceptance among local water system operators.

Planning and Design Review Fee. The planning fee, which more closely follows the traditional pattern of user fees, was instituted in 1984, three years before the annual service fee was introduced. The fee has produced sufficient revenues to cover the costs of performing plan and design review for all new or expanded drinking water systems in the State. A small programmatic deficit is made-up through federal grants. The FY89 revenue amounted to \$139,000, with an equal amount anticipated for FY90. The current fee rate is 10 cents per linear foot of water pipe, with a maximum charge of \$2,000.

Fines and Penalties. Fines for violating the State's regulations on drinking water are paid into

the state's general fund and credited to a special discretionary fund for use by the State Board of Health. To better ensure the violating jurisdictions future compliance with State regulations, reductions in the amount of the fine assessed are sometimes negotiated. Negotiations are conducted between the violating locality, WQS staff and a WQS attorney.

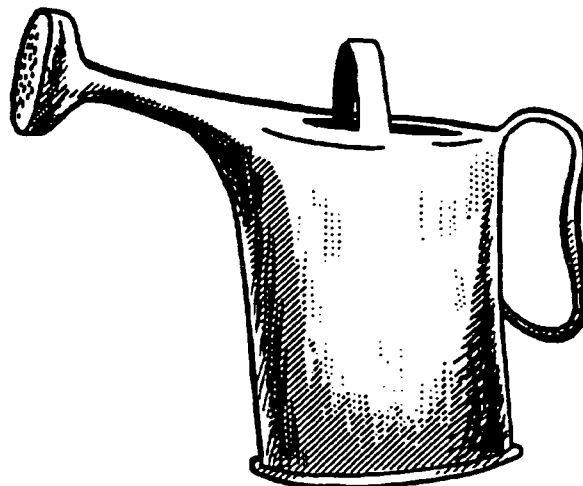
Future AFMs. For FY91 a slight increase in the annual service fee rate is expected, while the planning and design review fee rate should remain constant. No new AFMs are expected to be introduced. Before the institution of the fee systems the WQS and SEL were funded through an appropriation from the State legislature. Although they expect none to be forthcoming, officials will again ask the legislature for an appropriation this year. The OSDH does not have any contingency plans should the federal subsidy be discontinued.

It is estimated that the 1986 SDWA amendments will require up to \$800,000 for the purchase of lab equipment in the implementation phase, and an annual increase of \$400,000 (\$200,000 each for the WQS and the state laboratory). These costs will be funded through increases in the annual service fee rate if alternate sources of funding are not secured.

Summary. When asked what changes they would make to the funding situation, State officials expressed a desire to return to the general appropriation process. In their experience, operating AFMs has been more difficult when compared to the legislative process. Even though doing so would require them to compete for scarce financial resources, officials believe the wide public acceptance and legislative support they possess would protect their operations.

Contact:

Jon L. Craig
Chief, Water Quality Service
Oklahoma State Department of Health
P.O. Box 53551
Oklahoma City, OK 73152
(405) 271-5205



Wisconsin Public Drinking Water Program

More than 1,300 community water systems and 14,000 noncommunity systems comprise the drinking water delivery system in Wisconsin. The State's Public Drinking Water Program, located organizationally within the Department of Natural Resources (DNR), currently employs 31 persons. Its FY90 budget was \$1,939,400, of which \$1,164,300 came from an EPA grant and the balance from State general fund revenues.

In prior years, the DNR policy has been to monitor water quality for 22 contaminants. State law revisions added eight new contaminants to the list in September, 1989. Community water systems are regularly monitored according to a schedule: turbidity is checked daily, coliform levels each month, and various inorganic and radioactive contaminants every one to five years. Smaller noncommunity systems are scrutinized less frequently. Some noncommunity systems have never been inspected, and the rest only rarely. Noncommunity water supply systems inspections involve measurements of coliform and nitrate levels only.

Financing New U.S. EPA Requirements

The 1986 amendments to the Safe Drinking Water Act will require the State to commit extensive additional resources. First, the list of contaminants to be monitored will increase from 22 to 83. Also, the number of water systems to be checked will nearly double when 1,150 nontransient, noncommunity water systems are added to the 1,300 community systems. The DNR has estimated that a staff increase of 54 full-time employees will be necessary, at an annual cost

Wisconsin at a Glance

Fiscal Year 1990 Drinking Water Budget

EPA PWS Grant	\$1,164,300
State Appropriation	<u>775,100</u>
Total	\$1,939,400

Alternative Financing Mechanisms in Use

None at present - several have been proposed for adoption.

of about \$2.2 million, along with nearly \$700,000 in costs for new laboratory equipment. To finance these additional costs, five alternative sources of funding were considered in a December 1989 report prepared for the Wisconsin Legislature by the DNR.

- General Fund Appropriation
- Operating Fee
- Fee for Service
- Water Usage Fee
- Service Connection Fee

The DNR has not yet recommended a specific policy to Wisconsin's legislature. Instead, it plans to conduct a number of hearings and workshops to allow water supply system managers and the public to comment. The governor's FY91 budget proposal, due out in September 1990, will contain DNR's policy preference.

General Fund Appropriation. Financing compliance with the new EPA drinking water requirements with a larger general fund appropriation offers several advantages. It would entail no additional cost to administer, would be perceived as a fair way of paying for a service which benefits all Wisconsin residents, and would cost each household only about \$2.16 per year. However, changes in budget priorities in coming years could threaten the appropriation, and increased program funding would always have to be obtained through the politically-charged budget process.

Operating Fees. Operating fees levied on water systems according to the population of the communities they serve could generate at least some of the additional revenues necessary to ensure compliance with EPA requirements. The amount generated, however, would be constrained by the limited ability of small systems to pay and by the amount that can fairly be charged to larger systems.

One possible fee structure would charge the smallest systems \$200 annually, and the three largest systems \$75,000. Under this schedule, large systems would pay more than the value of the service received. Yet the cost will be only \$0.41 per household. The burden on small systems would be proportionally much greater, at up to \$28 per household. Water supply

system managers may resist such a fee where they perceive the burden is disproportionate to the benefit.

Fees-for-Service. The drinking water program could be funded on a strict fees-for-service basis. This option, however, would entail considerable administrative costs for the collection of fees for inspections, plan reviews, or lab analyses. More significantly, fees attached to specific services could discourage water supply system managers from routine participation.

A fee-for-service program with acceptable charges would not satisfy the State's incremental funding needs. Therefore, service fees would have to be adopted in a package with general fund increases or added funding from a third source.

Water Usage Fee. Water system customers could be charged a per-unit fee based upon the metered amount they consume. This fee could be easily collected where service is metered, but costs of collection would be substantial for noncommunity systems. Customers of nonmetered systems would pay a flat fee. The increase in the price of water to a typical household would be less than one percent.

This method appears at first to best satisfy the benefits criteria. If households are presumed to be the beneficiaries of the program, each household pays in proportion to the water used, except for private well owners who pay nothing yet still benefit from safe water consumed in restaurants and public buildings. However, the usage fee approach is much less equitable to the water systems themselves. Large systems would in fact pay much larger sums of money for the same inspection service as small systems.

Service Connection Fee. The final alternative which Wisconsin is considering is an annual service connection fee. It is similar to the operating fee, except that the money is collected from water system customers. A fee of \$2.47 per service connection would generate enough revenue to fund the State's projected program revenue needs. This alternative, like operating fees and usage fees, would take more from large systems than from small.

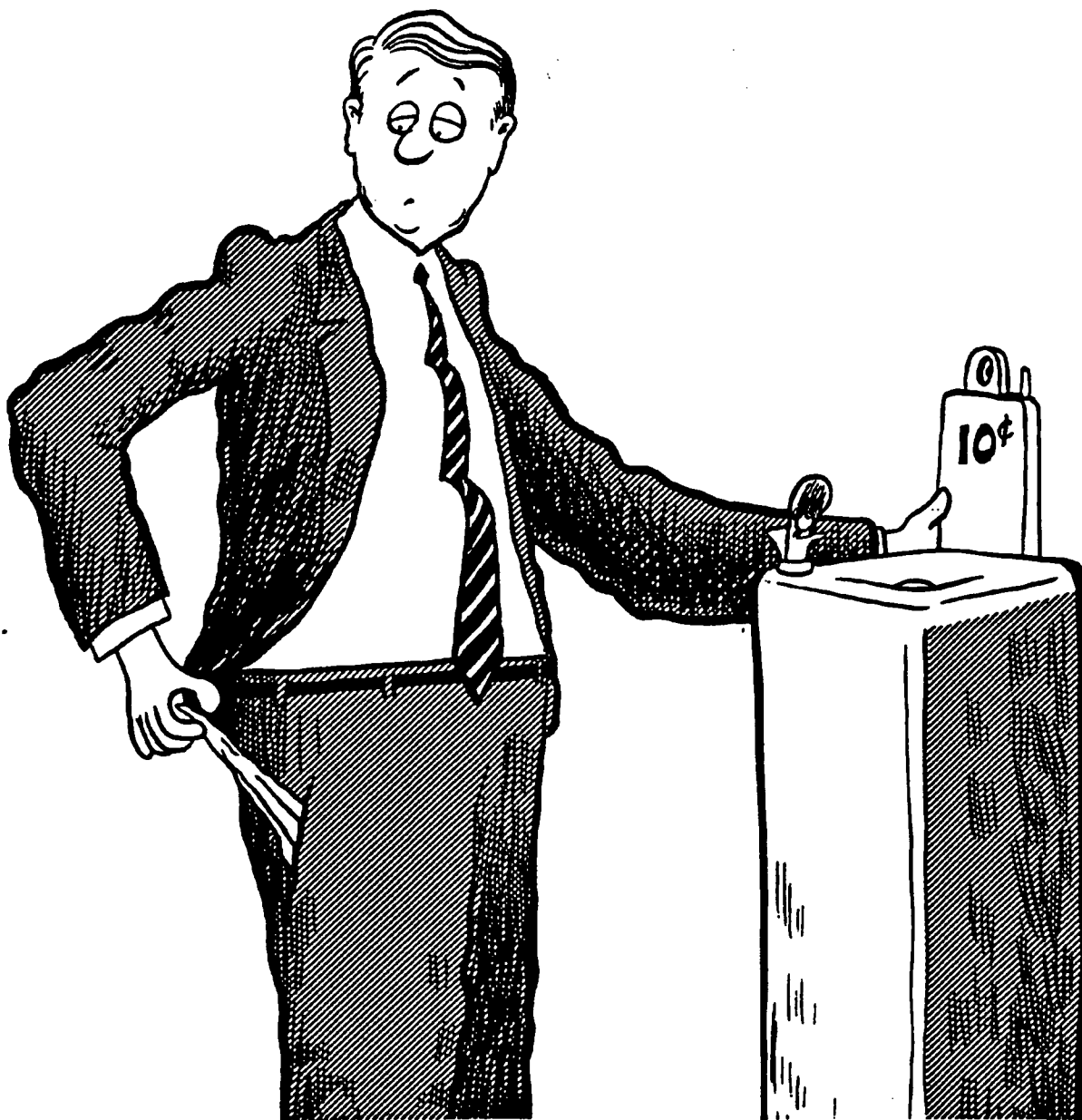
Summary. Wisconsin's approach to funding its drinking water program is to proceed with the assumption that EPA grants will continue at their FY89 level. It is currently moving toward a reliable, long-term solution. The State seeks a policy that will provide adequate revenue, distribute burdens fairly among State residents, and does not distort markets or hamper economic development. Each of the options described here can generate the needed revenue. However, equity is more difficult to attain. Fees which are based on service will overburden the customers of small systems, while a usage fee will shift the costs dramatically to large systems.

If usage fees are efficiently transferred to individual and corporate customers, drinking water fees could add substantially to the operating costs of some businesses. No single funding policy meets all the requirements.

Wisconsin is now in a political stage of its policy development. Armed with projections of program costs and fee proposals, DNR officials plan to travel the State in search of a consensus for AFMs of a combination of sources. Whether that consensus will be reached and a new policy adopted for FY91 is uncertain.

Contact:

Robert Baumeister
Chief, Public Water Supply Section
Department of Natural Resources
P.O. Box 7921
Madison, WI 53707
(608) 266-2299



**APPENDIX:
ALTERNATIVE FINANCING MECHANISMS USED
IN SELECTED STATES (FY90)**

ALTERNATIVE FINANCING MECHANISMS USED IN SELECTED STATES (FY90)

<u>State</u>	<u>AFMs</u>	<u>Estimated AFM Revenues (FY90)</u>	<u>AFM Revenue as % of Program Costs</u>	<u>AFM Revenues Dedicated (Y/N)</u>	<u>Fee Level Min/Max</u>	<u>Fee Scale (1)</u>	<u>Frequency of Collection (2)</u>	<u>Costs of Collection</u>	<u>Pending Legislation (Y/N)</u>	<u># of Community PWSs</u>	<u>Contact Person</u>
Alabama	Plan Review Fees	\$28,850	3%	No	Minimum = \$225 Maximum = \$300	Fixed	Periodic	NA	No	674	Joe Power (205) 271-7773
	Facility Permit Fees	\$0	0%	No	\$225 per permit	Fixed	Every 6 years for com. systems; every 10 years for noncom. systems.	NA			"
	Bacteriological Analysis Fees	\$400,000	39%	Yes	\$7 per sample	Fixed	Quarterly	15% of revenues			"
	Chemical Analysis Fees	\$250,000	25%	Yes	Varies with analysis	Fixed	Annual	10% of revenues			"
	Operator Certification Fees	\$18,000	2%	Yes	\$25 for application and exam; \$10 for renewal	Fixed	Semi-annual	negligible			"
Arkansas	Plan Review Fees	\$200,000	14%	No	Minimum = \$50 Maximum = \$500	Sliding	Periodic	NA	No	681	Harold Seibert (501) 681-2623
	PWS Fees	\$350,000	25%	No	Minimum = \$100 Maximum = \$4,800	Sliding	Annual	NA			"
California	Operator Certification Fees	\$230,000	2%	Yes	Exams are \$30-\$62; Renewals are \$24-\$56	Fixed	Periodic	NA	Yes	3,982	Peter Rogers (916) 323-1382
Florida	Construction and Drinking Water Distribution Permit Fees	\$180,000	5%	No	Minimum = \$50 Maximum = \$1,000	Sliding	Periodic	Negligible	Yes	2,261	Kerr Kimes (904) 487-1762
Illinois	Laboratory Fees	\$750,000	15%	Yes	\$.75 per connection	Sliding	Annual	NA	No	1,946	Rick Coffman (217) 782-9470
	Construction Permit Fees (water main extensions only)	\$300,000	6%	Yes	under 200 feet - no fee; over 5,000 feet - \$600	Sliding	Periodic	NA			"
	Operator Certification Fees	\$35,000	1%	Yes	Application and exam = \$40; renewal = \$10	Fixed	Periodic	NA			"

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<u>State</u>	<u>AFMs</u>	<u>Estimated AFM Revenues (FY90)</u>	<u>AFM Revenue as % of Program Costs</u>	<u>AFM Revenues Dedicated (Y/N)</u>	<u>Fee Level Min/Max</u>	<u>Fee Scale</u>	<u>Frequency of Collection</u>	<u>Costs of Collection</u>	<u>Pending Legislation (Y/N)</u>	<u># of Community PWSs</u>	<u>Contact Person</u>
Iowa	Operation Permit Fees	NA	NA	No	Minimum = \$80 Maximum = \$2,000	Sliding	Periodic	NA	No	1,161	Dennis Alt (515) 281-8998
	Construction Permit Fees	NA	NA	No	NA	Sliding	Periodic	NA			"
	Lab Certification Fee	NA	NA	No	NA	Sliding	Periodic	NA			"
Kansas	Operator Certification Fee	\$13,000	2%	No	\$5 per certification	Fixed	Annual	NA	No	940	Karl Mueldeener (913) 296-5500
Kentucky	Plan Review Fees	\$75,000	5%	Yes	Minimum = \$50 Maximum = \$750	Sliding	Periodic	NA	No	575	John Smither (502) 584-3410
Louisiana	Annual Service Connection Fee	\$680,000	29%	Yes	Minimum = \$25 Maximum = \$3,000	Sliding	Annual	5% of revenues	No	1,460	T. Jay Ray (504) 568-5101
Massachusetts	Cross Connection Fee	\$261,000	11%	No	\$25 per device	Fixed	Annual	NA	Yes	552	Evette DePelza (617) 292-5857
Minnesota	Plan Review Fees	\$100,000	3%	Yes	Minimum = \$100 Maximum = \$1,000	Sliding	Periodic	NA	No	1,007	Gary Englund (612) 627-5133
	Wellwater Permit Fees	\$1,800,000	NA	Yes	Minimum = \$50	Varies	Periodic	NA			"
Montana	Operator Certification Fees	\$40,000	6%	Yes	Minimum = \$10 Maximum = \$27	Fixed	Annual	NA	No	657	Steven Pilcher (406) 444-2406
	Subdivision Fees	\$200,000	29%	No	Minimum = \$20 per lot Maximum = \$48 per lot	Sliding	Periodic	NA			"
Nevada	Annual Service Connection Fees	\$53,000	11%	Yes	Minimum = \$60 Maximum = \$400	Sliding	Annual	NA	Yes	328	Jeff Fontaine (702) 687-4750
	Plan Review Fees	\$11,000	2%	Yes	NA	Sliding	Periodic	Substantial			"
New Hampshire	Operator Certification Fees	\$25,000	3%	No	\$40	Fixed	Biennial	NA	Yes	447	Bernard Lucey (603) 271-3139
	Laboratory Fees	NA	NA	No	NA	Varies	Periodic	NA			"
	Design Review Fees	\$100,000	14%	No	\$45 per residence	Fixed	Periodic	NA			"

ALTERNATIVE FINANCING MECHANISMS USED IN SELECTED STATES (FY90)

<u>State</u>	<u>AFMs</u>	<u>Estimated AFM Revenues (FY90)</u>	<u>AFM Revenue as % of Program Costs</u>	<u>AFM Revenues Dedicated (Y/N)</u>	<u>Fee Level Min/Max</u>	<u>Fee Scale</u>	<u>Frequency of Collection</u>	<u>Costs of Collection</u>	<u>Pending Legislation (Y/N)</u>	<u># of Community PWSs</u>	<u>Contact Person</u>
New Jersey	Water Delivery Tax	\$2,400,000	59%	Yes	\$0.01 per 1,000 gallons	Fixed	Periodic	Negligible	No	630	Barker Hamill (609) 292-5550
	Construction Permit Fees	\$500,000	12%	Yes	Maximum = \$12,000	Sliding	Periodic	Negligible			-
	Annual Operating Fees	\$400,000	10%	Yes	Minimum = \$60 Maximum = \$3,280	Sliding	Annual	Negligible			-
	Physical Connection Fees			Yes	\$200 per permit	Fixed	Annual	Negligible			-
Ohio	Plan Review Fee	\$270,000	9%	No	Minimum = \$100 Maximum = \$5,000	Sliding	Periodic	NA	Yes	1,835	Stuart Bruny (614) 644-2752
	Laboratory Certification Fee	\$48,000	2%	No	Minimum = \$150 Maximum = \$250	Fixed	Periodic	NA			-
	Operator Certification Fee	\$80,000	2%	No	Application = \$10; Exam = \$25-55; Renewal = \$15	Fixed	Periodic	NA			-
Oklahoma	Annual Service Fee	\$800,000	44%	Yes	\$1.20 per meter	Fixed	Annual	NA	No	1,328	Jon Craig (405) 271-5205
	Planning and Design Review Fee	\$139,000	10%	Yes	\$.10 per foot of pipe; Maximum charge of \$2,000	Sliding	Periodic	NA			-
Oregon	Operator Certification Fees	\$58,000	10%	Yes	Exams are \$35; Renewals are \$40	Fixed	Periodic	NA	No	441	Fred Bolton (503) 229-6357
Pennsylvania	Construction Permit Fees	\$450,000	6%	Yes	\$750 per permit	Fixed	Periodic	Negligible	Yes	2,483	Fred Marrocco (717) 787-5017
	Laboratory Certification Fees	\$225,000	3%	Yes	Minimum = \$650 Maximum = \$1,400	Varies	Annual	Negligible			-
South Carolina	Chemical Monitoring and Reporting Fee	\$800,000	35%	Yes	Minimum = \$50 Maximum = \$4000	Sliding	Annual	NA	No	909	Bob Malpass (803) 734-5310
	Annual Operating Permit Fee	\$150,000	7%	Yes	Minimum = \$50 Maximum = \$800	Sliding	Annual	NA			-

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<u>State</u>	<u>AFMs</u>	<u>Estimated AFM Revenues (FY90)</u>	<u>AFM Revenue as % of Program Costs</u>	<u>AFM Revenues Dedicated (Y/N)</u>	<u>Fee Level Min/Max</u>	<u>Fee Scale</u>	<u>Frequency of Collection</u>	<u>Costs of Collection</u>	<u>Pending Legislation (Y/N)</u>	<u># of Community PWSs</u>	<u>Contact Person</u>
Texas	Public Health Service Fees	\$1,200,000	24%	Yes	Minimum = \$25 for noncom. systems; maximum = \$5,000 for community systems	Sliding	Annual	2% of revenues	No	4,876	James Pope (512) 458-7533
Washington	Plan Review Fees	\$98,000	3%	Yes	Maximum = \$1000	Sliding	Periodic	Negligible	Yes	2,361	Bill Liechty (206) 753-5953
	Operator Certification Fees	\$80,000	2%	No	Exam = \$20; Renewal = \$10	Fixed	Periodic	Negligible			

Notes: (1) Fees based on a sliding scale would vary based on some factor, such as the size of the population served by a public water system. Fees based on a fixed fee schedule would not vary.

Finally, "varies" applies to a broad category of fees where fixed or sliding scales may apply.

(2) Periodic collections reflect infrequent or one-time only payments.

Source: This matrix was developed with materials from the following: the workshop on financing state water programs held in Denver, Colorado on March 20-21, 1989;
limited phone calls to state drinking water programs; and, information from U.S. EPA files.