



THE STATE
of ALASKA
GOVERNOR SEAN PARNELL

Department of Environmental
Conservation

DIVISION OF ADMINISTRATIVE SERVICES

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February 18, 2013

The Honorable Kevin Meyer
Co-Chair, Senate Finance Committee
State Capitol Room 421
Juneau AK, 99801

Dear Senator Meyer:

Thank you for the opportunity to provide the Senate Finance Committee with a brief overview of the Department of Environmental Conservation's FY2014 capital budget request on February 11. During our meeting some questions arose that required additional information. I have responded to those questions below. If you would like additional information, or have additional questions, I am happy to assist.

Is the money from NOAA enough for marine debris cleanup? Could the Department use more? (Senator Meyer)

Tsunami-generated marine debris clean-up is clearly an issue of statewide importance. Under Administrative Order 263, the Department of Environmental Conservation is charged with coordinating the State's response to tsunami-generated marine debris. The Administration has come forward with a supplemental request to accept funds from the Government of Japan administered by the National Oceanic and Atmospheric Administration. Also within the next week, the Department will provide the Legislature with a brief summarizing the tsunami debris situation in Alaska. That brief will address the known extent of the debris accumulation, plans and timeline for clean-up activities, potential costs for clean-up activities, available funds for clean-up activities, and a description of how the Department will coordinate the State's efforts with the participating agencies.

Can you explain loan-forgiveness subsidy program? Is this a state subsidy that is required by the federal program? (Senator Fairclough)

This capital request is called a "subsidy," but it does not require any state funding. This capital request is being made because the Department is required to make available a portion of the Environmental Protection Agency (EPA) capitalization grant for our state revolving loan fund to communities as "principal forgiveness" rather than a loan. These are all federal funds and no state funds are involved. The Department is only complying with federal requirements, which are the same in all fifty states, as a condition of receiving the EPA capitalization grant. This requirement does not impose any lasting requirement on the state and has no impact on how the program is managed. The Alaska state revolving loan fund will continue to be managed in way that ensures affordable access to funds by Alaska communities for perpetuity.

The Alaska state revolving fund (SRF) program provides loan funding to larger municipalities throughout the state for capital improvements to water, sewer and solid waste systems. This is a national program with original capitalization funds provided by the EPA. Capitalization funds are provided to every state by formula. There are two parts to the

program. The Clean Water SRF was created in 1988 and provides loan funds for wastewater system and solid waste improvements, and the Drinking Water SRF was created in 1997 and provides loan funding for drinking water system improvements.

Since the inception of the two funds in Alaska, the total amount of capitalization funds received from the EPA are as follows:

- \$193,136,962 in Clean Water SRF Capitalization Grants
- \$154,554,656 in Drinking Water SRF Capitalization Grants

The total amount of loan funding available in any given year for communities is comprised of the amount of the EPA capitalization grant plus the amount of repayments and interest during that year. This year, the amount of available funding for loans is as follows:

- Clean Water Projects: \$32,754,854
- Drinking Water Projects: \$10,112,504

Per federal requirements, each year, capitalization grants must be matched with 20% of non-federal funds. In Alaska, the Department uses revenue anticipation bonds from interest earnings on the fund through a one day bonding exercise to meet this 20% match requirement. This means that State General Funds are not used for this purpose.

Funding available to lend to communities consists of:

- Capitalization Grants from EPA
- 20% State Match (thru bonding of interest earnings on the funds)
- Repayment of principal from projects receiving loan funds
- Finance charge (currently 1.5% on 5 - 20 year loans and 1% on 1 - 5 year loans) on the repayment of loan funds, which includes a 0.5% administration fee
- Investment interest earned on the repayment funds (by the Department of Revenue)
- Penalties from late payments (a very small percentage and very rarely imposed)

Prior to FY2011, the entire annual EPA capitalization grant, along with the state match, was made available to communities to borrow. Starting in FY2011, EPA capitalization grants included a requirement that a portion of the grant be made available to communities as "principal forgiveness," or essentially as a grant. According to EPA requirements, principal forgiveness is made available to communities that meet certain economic distress criteria. This allows these communities to borrow needed funds and obtain a discount on repayment. Each year, each program has a different compliance requirement for how much principal must to be forgiven.

FY2014 projected requirements are as follows:

Total EPA Clean Water Capitalization Grant	\$8,444,000
Required principal forgiveness portion of Capitalization Grant	<u>(\$704,000)</u>
Total available amount to be repaid	\$7,740,000
 Total EPA Drinking Water Capitalization Grant	 \$8,975,000
Required principal forgiveness portion of Capitalization Grant	<u>(\$2,692,800)</u>
Total amount to repaid	\$6,282,200

Total funding from EPA that will be repaid to revolving fund \$14,022,200

For FY2014, \$3,396,800 (\$704,000 plus \$2,692,800) will not be repaid to the state revolving loan fund, and will not revolve to be loaned to new projects or earn interest and finance charges on repayment. This is not a true expense to the State, but less opportunity to grow the fund for new projects. Because these funds will not be repaid, they must be included in the Department's capital budget request to the legislature.

Sincerely,

A handwritten signature in blue ink, appearing to read "Tom Cherian", with a horizontal line drawn underneath.

Tom Cherian
Director, Division of Administrative Services

Enclosures:

Cc: David Teal & Danith Watts, Legislative Finance Division
Suzanne Armstrong, Staff to Senator Meyer