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HB123 – Establishing a Linked Deposit Program for the Clean Water Fund

HB123 provides a market incentive to promote healthy water systems by expanding access to the Alaska Clean Water Revolving Loan Fund. It does this by allowing banks to establish low-interest financing for nonpoint source pollution control projects through a linked deposit program.

The Clean Water Fund is a federal program administered by the Alaska Department of Environmental Conservation (DEC) established to fund projects that deal with the care of water and water systems. Currently principal and interest can only be used only by municipalities and state agencies. HB123 increases the impact of Clean Water dollars by allowing community organizations, developers, non-profits and individuals to borrow for projects to mitigate pollution from nonpoint sources through a linked deposit program with a third party financial institution.

DEC currently administers pass through loans to municipalities. This places any risk of the municipality defaulting on their loan on the State. For individual borrowers under a linked deposit loan program the financial responsibility for a loan default would be on a commercial financial institution rather than the State. DEC would place Clean Water Dollars in a Certificate of Deposit at a bank. The local bank would screen borrowers for their creditworthiness and hold the loan. This removes the Department of Environmental Conservation from the burden of administering mini-loans. In turn, the financial institution would charge a slightly higher interest rate than if the borrower were borrowing directly from the Fund. However, this still would represent a greatly reduced interest rate and be beneficial to the borrower.

The largest use of the linked deposit program in other states is to provide low interest loans to home owners to improve or replace failing septic systems and address stormwater management. Farmers have used the Clean Water Fund to institute agricultural best practices such as manure storage facilities and runoff mitigation. Developers have used the loans to implement “green infrastructure” into their development. This is done through improvements such as permeable pavement, flood plains, riparian buffers, pocket wetlands and tree boxes. Brownfield remediation, cleaning up landfills and turning them into developable property, is another use of the fund that promotes economic development in communities. There are many creative ways to use Clean Water dollars to help mitigate pollution in our water systems.

At their current rate of borrowing municipalities do not utilize the available federal funds. Broadening the access to the Fund would allow for the full benefit of these federal dollars to be utilized in water projects throughout the State.

HB123 creates a convenient mechanism for individuals, businesses, and non-profits to access low interest loans and provides a market incentive to engage in projects that promote healthy watersheds and better development projects.