

H B

304

COMMITTEE REPORT

HOUSE

3/10/81

FURTHER: FINANCE

(5)

Date: April 12, 1981

Mr. Speaker: HEALTH, EDUCATION & SOCIAL SERVICES

The Committee on _____ has had HB 304

"An Act relating to grants for water supply, sewerage and solid waste facilities; and providing for an effective date."

under consideration and reports it back as follows:

- do pass do not pass
- do pass with attached amendments(s)
- replace with CS for HB 304 same title
 new title
- and recommend: _____
- AND attaches a "Letter of Intent" New Fiscal Note
- reports it back without recommendation
- referred to the _____ Committee

MEMBERS SIGNING DO PASS

[Signature]
[Signature]
[Signature]

MEMBERS HAVING OTHER RECOMMENDATIONS:

[Signature]
 CHAIRMAN

Alaska MUNICIPAL League

TELEPHONES
907 586-1325
586-6526

204 N. FRANKLIN ST.
JUNEAU ALASKA 99801

March 31, 1981

To: House Health, Education & Social Services Committee

From: Ginny Chitwood

Re: HB 304 - Grants for Water Supply, Sewerage & Solid
Waste Facilities

The Alaska Municipal League urges your favorable consideration of HB 304, increasing the state share of construction grants for community water, sewer and solid waste projects from 50% to 75% of the non-federal share. In looking at various ways to distribute the state's revenues, this proposal should rank high on the list for many reasons.

1. Public Health Needs: Adequate and clean water, sanitary sewer and solid waste disposal are basic public health issues that, for the most part, cannot be addressed on an individual basis. Because total costs of these projects are very large, it is hard for most areas to raise the current 50% local match.

2. Relief for Property Owners: The local share of water and sewer projects traditionally is paid by assessments on local property, not by general municipal taxation. Increasing the state share will provide direct relief to property owners and tax payers by reducing local improvement district (LID) payments.

3. Federal Income Tax: None of the state assistance dollars under this program will result in increased federal income tax payments, as is the case with many of the other state revenue distribution proposals. LID payments, as opposed to property and sales tax payments, are not tax deductible, nor are monthly charges for water, sewer and solid waste services.

4. Price of Land: A big issue for the last couple of years has been the high cost of land. One reason for these high prices in developing suburban areas is the high cost of installing necessary water and sewer systems. Increasing state participation in providing these systems will help to lower the cost of making land available for use. For example, it costs an average of \$13,000 per lot in Ketchikan to provide sewerage under the current state construction grants program. In Juneau, the per lot assessment for a proposed water system would drop from \$1,177.19 to \$608.25 for the smallest lot in the project and from \$8,318.70 to \$4,159.35 for the largest lot if the state share is increased to 75%.

5. Mandated Costs: Many of the municipal water, sewer and solid waste projects have costly additional features not because communities want them, but because they are mandated by federal and/or state laws. It seems only fair that a large portion of the mandated cost be borne by other than the local residents.

At one time it was feared that an increase in the state share would be a disincentive for municipalities to seek federal funds, thus increasing even more the cost to the state. It has since been determined that in many cases, "jumping through the hoops" for federal funds increases project costs so high as to negate the benefits of those funds. In addition to the extras required by the feds, the inflationary increases in the two extra years required for federal processing add tremendously to the cost of a project. In contrast, the Alaska Department of Environmental Conservation has an excellent record of timely processing applications.

POSITION PAPER ON HOUSE BILL 304

By

Ernst W. Mueller
Commissioner
Department of Environmental Conservation

Before the
House Health, Education & Social Services Committee

March 31, 1981

Safe drinking water and hygienic sewage and solid waste disposal are essential conditions to ensure public health. For over a decade, the State of Alaska has provided grant funding to local communities to expand and improve their public water supplies and sewage collection and treatment systems. In the last session of the Alaska Legislature, provision was made to expand this program to include solid waste disposal and attendant resource recovery projects. Through these programs, the State has helped not only to prevent an unknown, but potentially large number of illnesses caused by environmental factors, but also substantially aided community expansion and residential, commercial and industrial development. Not only individual homes, but industrial areas in many communities, such as the Fairbanks Railroad Industrial area, the Kodiak waterfront seafood processing area, and the State fairgrounds in Haines, Palmer, and the Tanana Valley have been brought water or sewer service, or both, by these programs. An added advantage, in dollar and human costs, is the additional fire control and insurance savings realized by nearby hydrants feeding from the water distribution systems.

These programs have also been funded with large blocks of federal funds, as well as local matching moneys. Of the federal agencies funding local projects, the U. S. Environmental Protection Agency, the Economic Development Administration, the Farmers Home Administration, the Department of Housing and Urban Development, and the Alaska Area Native Health Service are the largest sources. Under the current program, the State's maximum grant award is one-half of the costs not borne by a federal granting agency. In a sewer project funded with EPA grants, for example, EPA would pay 75 percent, the State 12.5 percent, and the local government the remaining 12.5 percent. This formula mechanism assured a meaningful local share in the project--to ensure that the recipient of the service has a fiscal interest and a positive incentive to manage the project well.

As I am sure you are aware, the federal funding agencies will suffer large reductions by the Reagan Administration's efforts to restrain federal budget growth. The Economic Development Administration is

planned for dissolution, the Farmers Home and HUD grant programs are scheduled for severe cutbacks, and EPA's wastewater program will be eliminated unless Congress strongly modifies it. In the latter program, we have already seen \$12.6 million in funds allocated to Alaska in 1981 and earlier federal fiscal years eliminated in the last few weeks. Also, the \$16-20 million we expected for Federal Fiscal Year 1982 will not be forthcoming. (If any federal funding is available in the future, it may be for wastewater treatment plant construction only, not for interceptors and collector sewers. These latter projects are essential to serve new growth areas in communities and to bring sewer service to older sections of communities where single service septic tanks are failing. As a result of these reductions, for example, the local share of an interceptor sewer could be as much as four times what it would if federal funds were available. I expect that many communities in Alaska, facing increased costs everywhere because of reduced federal assistance, will be very reluctant to initiate new utility projects with these large cost increases.

House Bill 304 and its companion in the Senate, SB 252, would increase the State share of these projects to 75 percent, with a maximum State grant program/federal joint share of 87.5 percent, and maximum State share of resource recovery projects of 85 percent. I want to express our strong support for this increased State share, not only because federal shared programs are dwindling, but also because of its positive impact on local community finances. In general, water and sewer service is not paid by user fees and property assessments. The local revenues are most often generated by the sale of local revenue bonds which are redeemed by the revenues from the fees and assessments. The exceptions to this rule might be sewage treatment plant construction funds which are acquired through general obligation bonds; however, interceptor, trunk and collector sewers, water treatment, storage and distribution systems are most often handled as an enterprise activity, with those receiving the service paying for it directly. Additionally, in many cases sewer use fees are used to redeem general obligation bonds sold to construct new plants.

The Legislature is now considering ways in which to repay local property taxes, thus effectively lowering the property tax rates for landowners. While there are a variety of ways to do this, any return to the general property taxpayer will result in an increase in federal income tax for those itemizing their deductions. On the other hand, if the State increases its subsidy of a local government service which is paid by fees and assessments which are not tax deductible, there will be no increases in federal taxes for property taxpayers, and no resultant net loss of dollars out of the Alaskan economy. Additionally, such increased grants can benefit all those receiving services from municipally-owned water, sewer, and solid waste services, whether or not they pay property taxes or federal income taxes.

We estimate that this increased grant program will result in projects being constructed that would not have been under the lower formula percentage. As a practical matter, however, there is no means by which we can detail the exact projects or their costs at this time. We have projected what additional moneys would be needed to fully fund this bill and the solid waste construction grant program, which was not fully funded by the Legislature when it passed last year because of bond fund constraints. We estimate that \$20 million will be needed in State Fiscal Year 1982, in addition to that appropriated in the water and sewer bond which the voters approved in the November general election.

In FY 83, the total need is projected to be \$40 million. Additionally, we will need a small increase in our staff to handle this expanded program; we expect that \$116,300 will be needed to fund 2-1/2 positions in FY 1982. The details of this funding is explained in the attached fiscal note.

Thank you for the opportunity to comment and I would be pleased to answer any questions you might have.

Attachment

POSITION PAPER ON SENATE BILL 252

By HB 304

HB 304

Ernst W. Mueller
Commissioner
Department of Environmental Conservation

Before the
Senate Community & Regional Affairs Committee

March 26, 1981

Safe drinking water and hygienic sewage and solid waste disposal are essential conditions to ensure public health. For over a decade, the State of Alaska has provided grant funding to local communities to expand and improve their public water supplies and sewage collection and treatment systems. In the last session of the Alaska Legislature, provision was made to expand this program to include solid waste disposal and attendant resource recovery projects. Through these programs, the State has helped not only to prevent an unknown, but potentially large number of illnesses caused by environmental factors, but also substantially aided community expansion and residential, commercial and industrial development. Not only individual homes, but industrial areas in many communities, such as the Fairbanks Railroad Industrial area, the Kodiak waterfront seafood processing area, and the State fairgrounds in Haines, Palmer, and the Tanana Valley have been brought water or sewer service, or both, by these programs. An added advantage, in dollar and human costs, is the additional fire control and insurance savings realized by nearby hydrants feeding from the water distribution systems.

These programs have also been funded with large blocks of federal funds, as well as local matching moneys. Of the federal agencies funding local projects, the U. S. Environmental Protection Agency, the Economic Development Administration, the Farmers Home Administration, the Department of Housing and Urban Development, and the Alaska Area Native Health Service are the largest sources. Under the current program, the State's maximum grant award is one-half of the costs not borne by a federal granting agency. In a sewer project funded with EPA grants, for example, EPA would pay 75 percent, the State 12.5 percent, and the local government the remaining 12.5 percent. This formula mechanism assured a meaningful local share in the project--to ensure that the recipient of the service has a fiscal interest and a positive incentive to manage the project well.

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MAR 27 1981

CLERK OF THE SENATE

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Senate Bill 252 and its companion in the House of Representatives, HB 304, would increase the State share of these projects to 75 percent, with a maximum State grant program/federal joint share of 87.5 percent, and maximum State share of resource recovery projects of 85 percent. I want to express our strong support for this increased State share, not only because federal shared programs are dwindling, but also because of its positive impact on local community finances. In general, water and sewer service is not paid by user fees and property assessments. The local revenues are most often generated by the sale of local revenue bonds which are redeemed by the revenues from the fees and assessments. The exceptions to this rule might be sewage treatment plant construction funds which are acquired through general obligation bonds, however, interceptor, trunk and collector sewers, water treatment, storage and distribution systems are most often handled as an enterprise activity, with those receiving the service paying for it directly. Additionally, in many cases sewer use fees are used to redeem general obligation bonds sold to construct new plants.

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Attachment

ATTACHMENT A

CALCULATION OF INCREASED FUNDING REQUIREMENTS

1980 - Total State grant obligation	\$20.5 M
1980 - State matching grant obligations for EPA projects	<u>4.0 M</u>
1980 - State only grant obligations	16.5 M

EFFECT OF 75 PERCENT FUNDING ON STATE GRANT OBLIGATIONS

\$16.5 M X $\frac{75\% \text{ funding level}}{50\% \text{ funding level}}$	*24.75 M
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EFFECT OF EPA FUNDING REDUCTIONS ON STATE GRANT OBLIGATIONS

Maximum future EPA funding estimated at	\$12.0 M/year
Present EPA funding average is	\$17.0 M/year
State Increase Required = \$17.0 - \$12.0 =	5.0 M
State Match = \$12.0 X 12.5% =	<u>1.5 M</u>
	\$ 6.5 M

EFFECT OF SOLID WASTE GRANTS ON STATE GRANT OBLIGATIONS

Estimated annual demand for solid waste grants	\$ 6.0 M
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TOTAL FUNDING REQUIREMENTS

75% funding effect	=	\$24.75 M
EPA funding reduction effect	=	6.50 M
Solid waste grants effect	=	<u>6.00 ..</u>
Total estimated annual needs based on 1980 rates	=	\$37.25 M

ADJUSTMENT FOR 10 PERCENT ANNUAL INFLATION

\$37.25 X 1.1	=	\$40.975 M
Assume minimum FY 1982 funding requirement of		\$41.0 M

ESTIMATED UNOBLIGATED BOND FUND BALANCE AT JULY 1, 1981

\$27.2 M - \$6.2 M	=	\$21.0 M Balance
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ESTIMATED ADDITIONAL NEEDS FOR FY 82

\$41.0 M - \$21.0 M	=	\$20. M Increased Appropriat
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FISCAL NOTE

I. REQUEST

Bill/Resolution No. SENATE BILL 252
 Title "relating to grants for water supply, sewerage and solid waste facilities"
 Requested by Kertulla and Kelly Date March 9, 1981

II. FISCAL DETAIL

Agency Affected Department of Environmental Conservation
 Program Category Affected IRNEC
 BRU, Program, or Subprogram(s) Affected Facility Construction & Operation Section *
 (Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.) *Municipal Grants Program

EXPENDITURES (Thousands of Dollars)
 Estimated on 8% increase per year

	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85
100 PERSONAL SERVICES	NA	NA	91.3	98.6	106.5	115.0
200 TRAVEL	NA	NA	14.0	15.1	16.3	17.6
300 CONTRACTUAL	NA	NA	8.0	8.6	9.3	10.1
400 COMMODITIES	NA	NA	0.5	0.5	0.6	0.6
500 EQUIPMENT	NA	NA	2.5	---	---	---
600 LAND & STRUCTURES	NA	NA	---	---	---	---
700 GRANTS, CLAIMS, ETC.	NA	NA	20,000.0	40,000.0	43,200.0	46,656.0
TOTAL			20,116.3	40,122.8	43,332.7	46,799.3

FUNDING (Thousands of Dollars)

GENERAL FUND			20,116.3	40,122.8	43,332.7	46,799.3
FEDERAL FUNDS	NA	NA	---	---	---	---
OTHER (Specify Fund Source)	NA	NA	---	---	---	---
	NA	NA				

POSITIONS

FULL TIME	NA	NA	2.0	2.0	2.0	2.0
PART TIME	NA	NA	1.0	1.0	1.0	1.0
TEMPORARY	NA	NA	NA	---	---	---

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

This fiscal note details the costs associated with hiring two new engineers (environmental engineers II and III) and converting an existing half time clerk typist II position to full time (PCN 18-7281). It is estimated that these additional staff will be required to handle the increased number of grants that will result from 75% funding. It may also be necessary to increase our level of effort on some projects, since smaller communities will not be applying for grants. Many of these communities do not have the expertise to administer engineering and construction contracts and may rely on the Department for assistance. There may also be a corresponding decrease in the level of effort now devoted to EPA projects. If this occurs, it may not be necessary to fill both engineering positions.

The \$20.0 million estimate for additional grant funding in FY 82 will need to be considered as an appropriation if funds are to be available. For subsequent years program funding may be provided through either bond issues appropriations or a combination of the two sources. For subsequent years we also recommend that any additional program expenditures be financed as a capital improvement program with funding coming from either the bond issues or the

IV. DATE MARCH 23 1981 PREPARED BY ALVIN KILTON APPROXIMATION
 AGENCY Department of Environmental Conservation
 PHONE 455-2610

Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)

THE LEGISLATURE OF THE STATE OF ALASKA
ELEVENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. HOUSE BILL 304
 Title relating to grants for water supply, sewerage and solid waste facilities
 Requested by Duncan Date 3-10-81

II. FISCAL DETAIL

Agency Affected Department of Environmental Conservation
 Program Category Affected NRMEC
 BRU, Program, or Subprogram(s) Affected Facility Construction and Operation Section
 (Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85
100 PERSONAL SERVICES	NA	NA	91.3	98.6	106.5	115.0
200 TRAVEL	NA	NA	14.0	15.1	16.3	17.6
300 CONTRACTUAL	NA	NA	8.0	8.6	9.3	10.1
400 COMMODITIES	NA	NA	.5	0.5	0.6	0.6
500 EQUIPMENT	NA	NA	2.5	---	---	---
600 LAND & STRUCTURES	NA	NA	---	---	---	---
700 GRANTS, CLAIMS, ETC.	NA	NA	20,000.0	40,000.0	41,200.0	46,656.0
TOTAL	NA	NA	20,116.3	40,122.8	43,332.7	46,799.3

FUNDING (Thousands of Dollars)

GENERAL FUND	NA	NA	20,116.3	40,122.8	41,332.7	46,799.3
FEDERAL FUNDS	NA	NA	---	---	---	---
OTHER (Specify Fund Source)	NA	NA	---	---	---	---

POSITIONS

FULL TIME	NA	NA	2.0	2.0	2.0	2.0
PART TIME	NA	NA	1.0	1.0	1.0	1.0
TEMPORARY	NA	NA	---	---	---	---

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IV. DATE March 23, 1981 PREPARED BY KEITH KELTON appropriation.
 AGENCY Department of Environmental Conservation
 PHONE 465-2610

Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)