

**HB**

**304**

## Water Bond Bill

### SHORT FACT SHEET

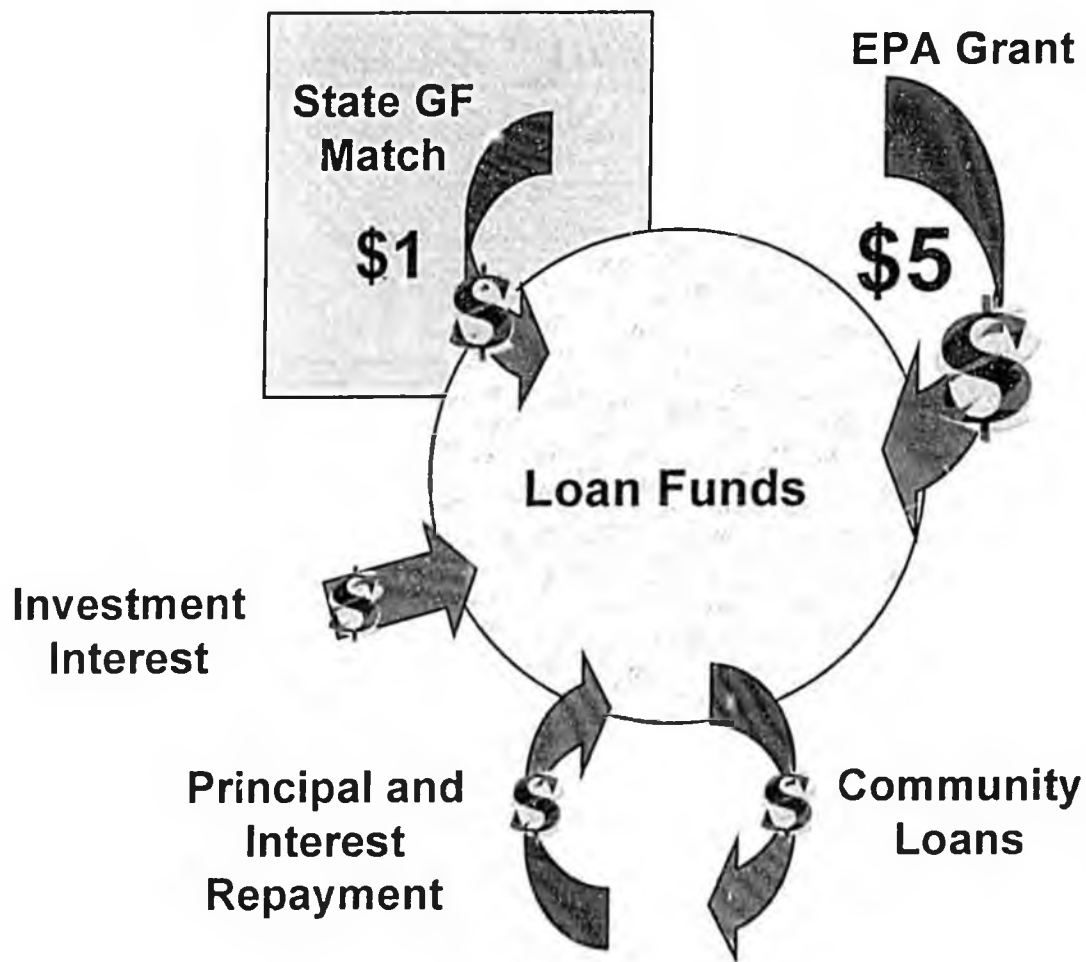
The Governor has introduced the ADEC Drinking Water Bonding and Fee Authority bill for consideration by the Legislature. The primary purpose of the bill is to provide ADEC with bonding authority for the Drinking Water Loan Program and allow for program operation costs to be charged back to loans through finance charges.

Some of the cost-saving measures and efficiencies achieved by enactment of this legislation are:

- ◆ By allowing ADEC the authority to bond for the **Drinking Water Loan Program** this bill would save general funds currently used to match federal funds. This year, \$7.7 million in drinking water funds will be offered from EPA and the State must come up with \$1.5 million to match it. Through this bill, the State could bond for this match in future budget years instead of drawing money from general funds.
- ◆ Already, bonding authority in the companion **Clean Water Fund** will result in a direct savings to the State of 1.6 million this year.
- ◆ Through bonding authority for both programs the State could realize over \$3.0 million each year in general funds savings. At the same time, the State will draw in over \$15 million each year in federal funds for needed water and wastewater project loans.
- ◆ The bill provides for additional savings of general funds and low finance costs to communities by using a portion of the finance charges to pay program costs. Currently, this cost is paid for by a small part of the federal grants awarded the State. That money is limited and will run out in about four years.
- ◆ Additional savings to the communities will be realized through regulation amendments allowing the interest rate charged to communities to drop from 4.3% to 2.5%. ADEC has operated the loan programs for many years and they now have the financial strength to offer this rate reduction and still absorb the program costs.
- ◆ ADEC would use only the amount of funds needed and allowed by the Governor and the Legislature to cover program costs.
- ◆ No new positions or significant program cost increases are expected.
- ◆ Already, these two loan programs have provided low-interest loans in the amount of \$160,000,000 to Alaskan communities. They are a vital financial option for municipalities that must construct drinking water and wastewater capital projects.

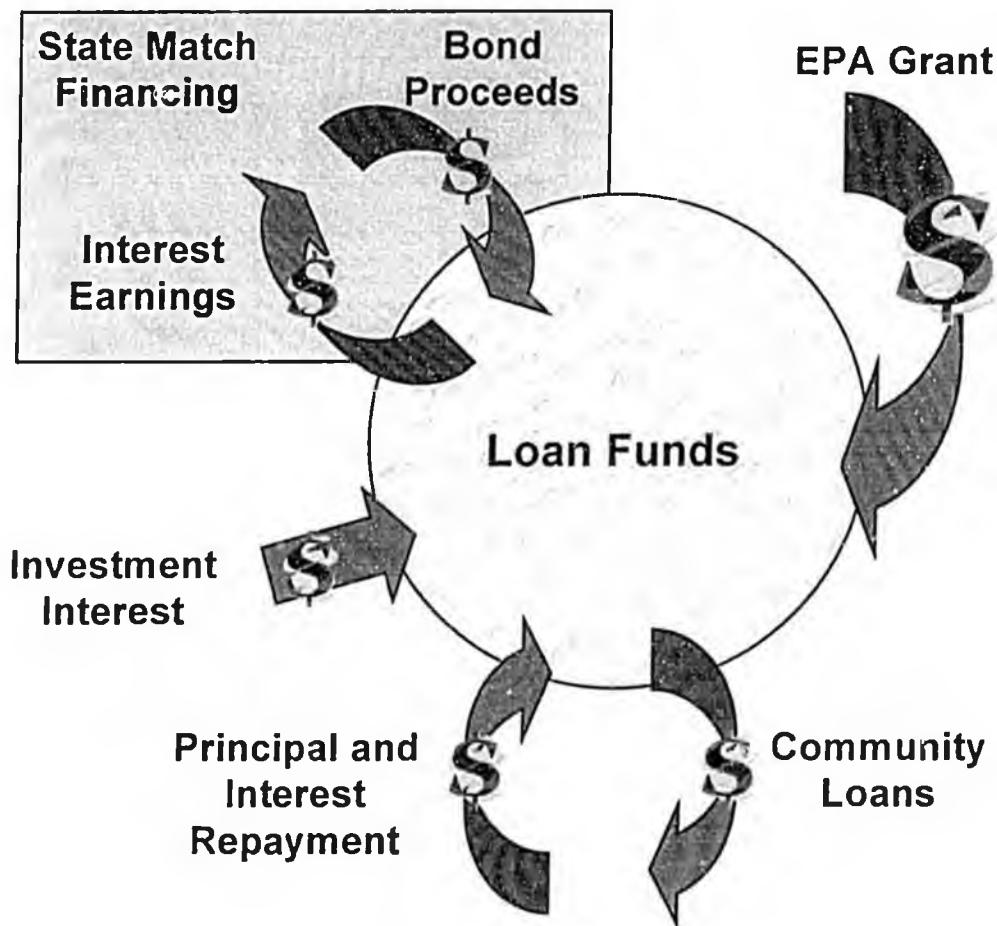
# Existing Fund Capitalization Process

Current Loan Fund Capitalization

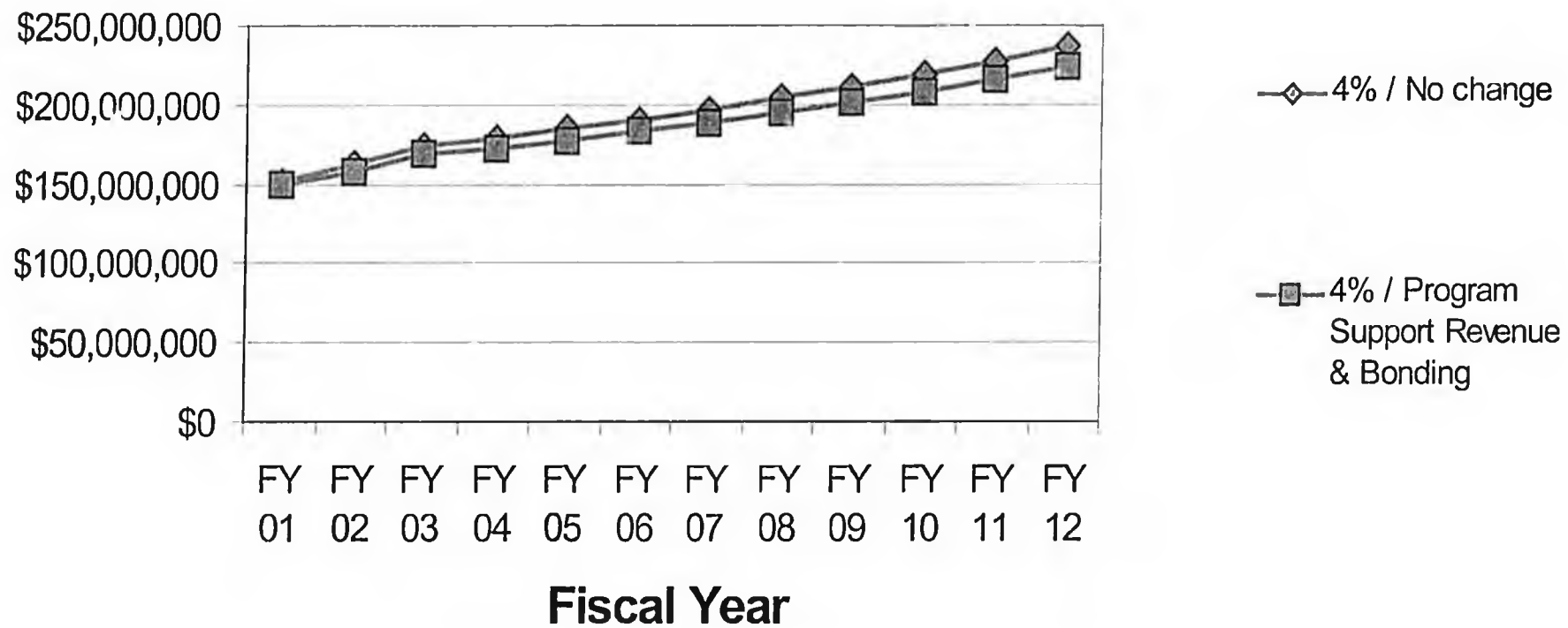


# Proposed Fund Capitalization Process

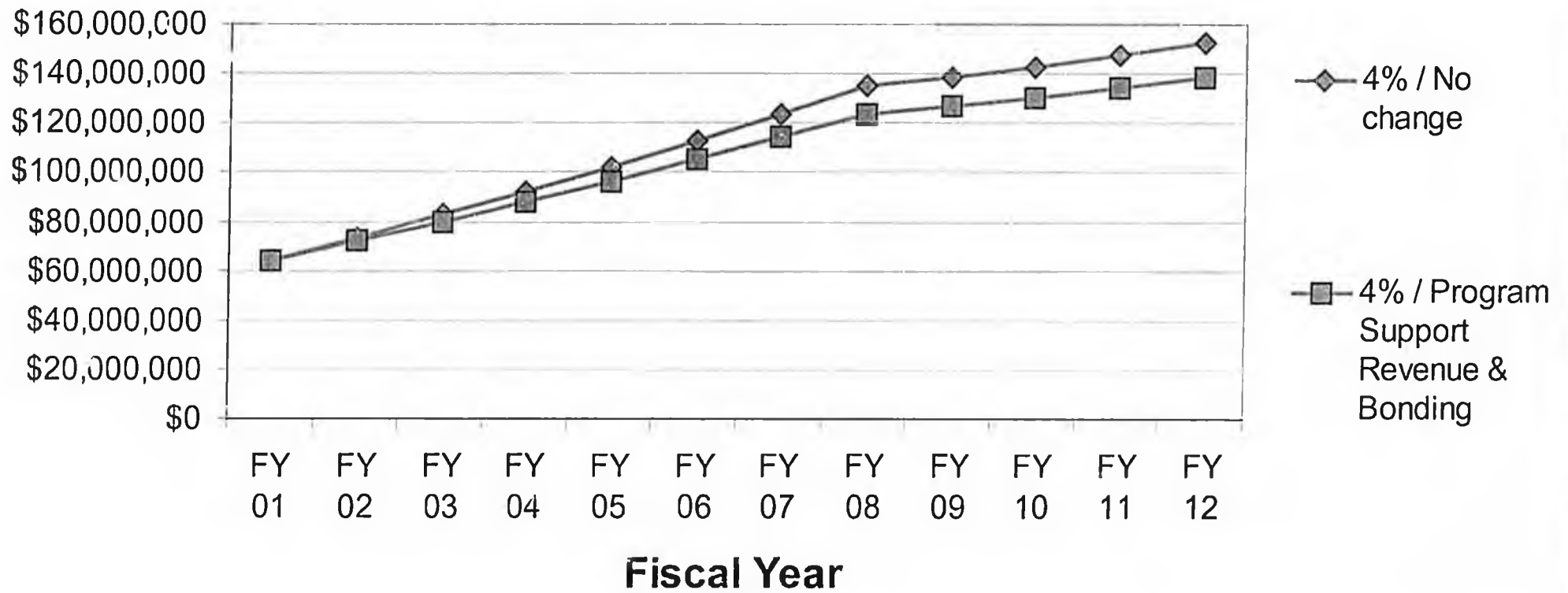
## Proposed Loan Fund Capitalization



# Clean Water Projected Growth

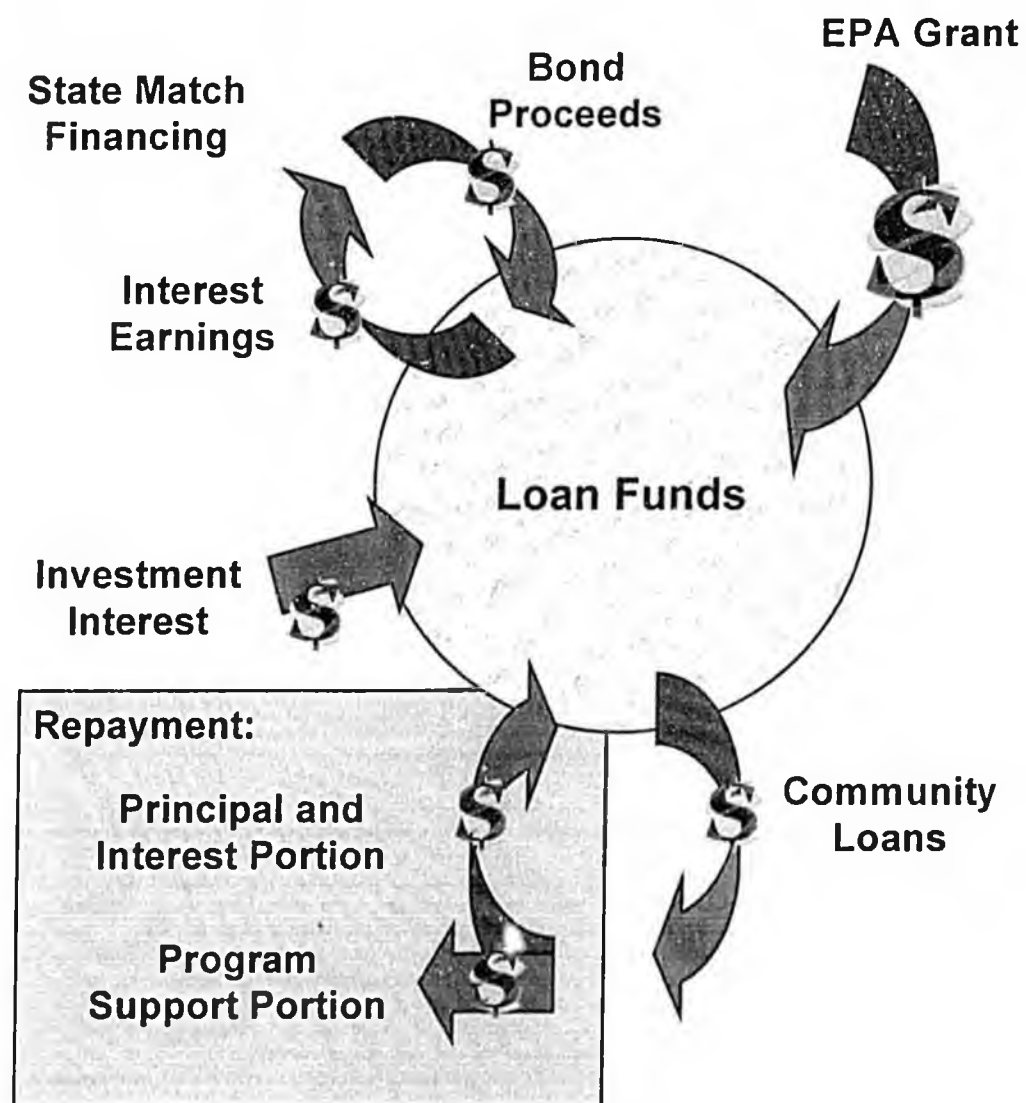


## Drinking Water Projected Growth

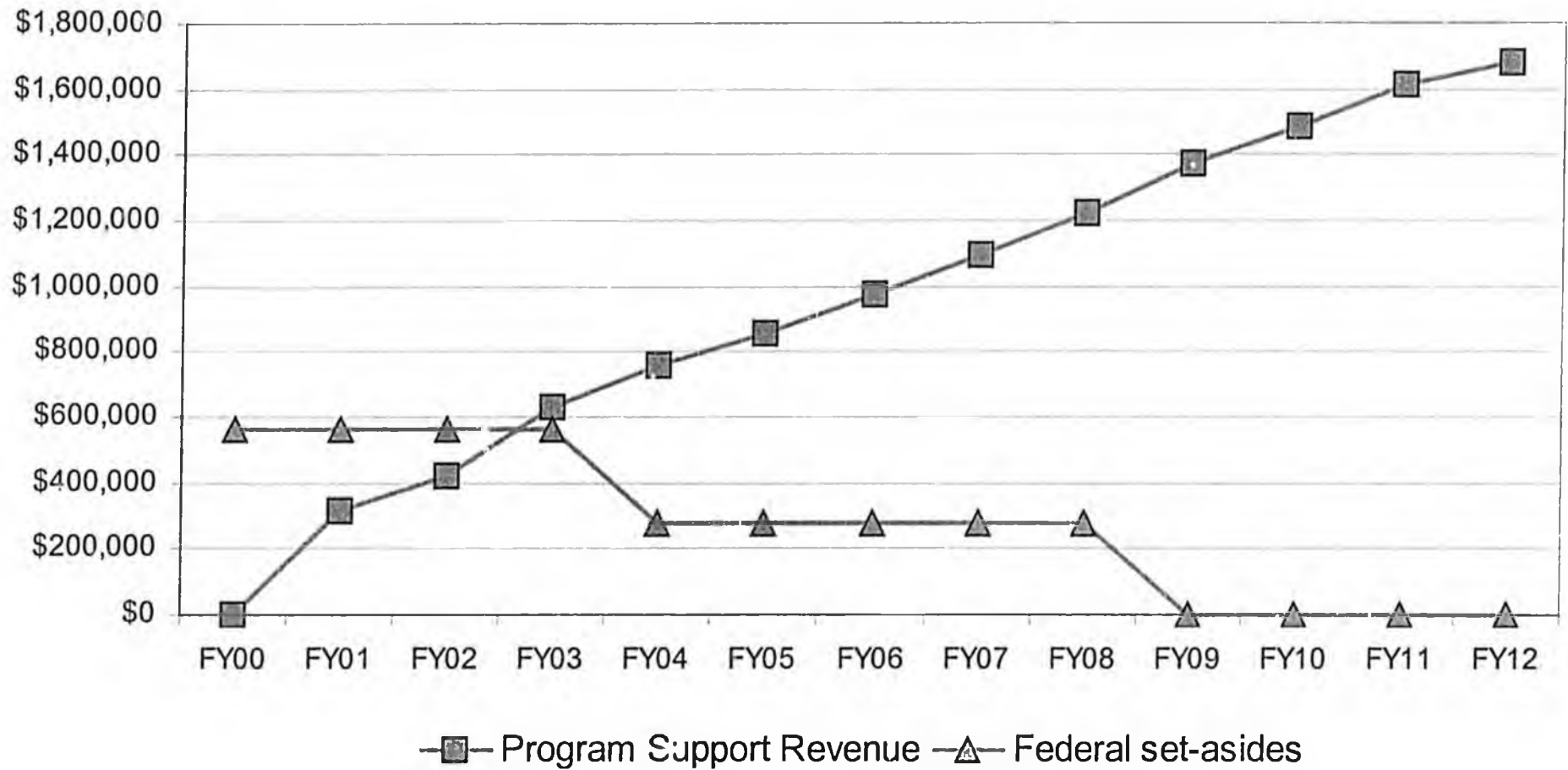


# Proposed Program Funding Source

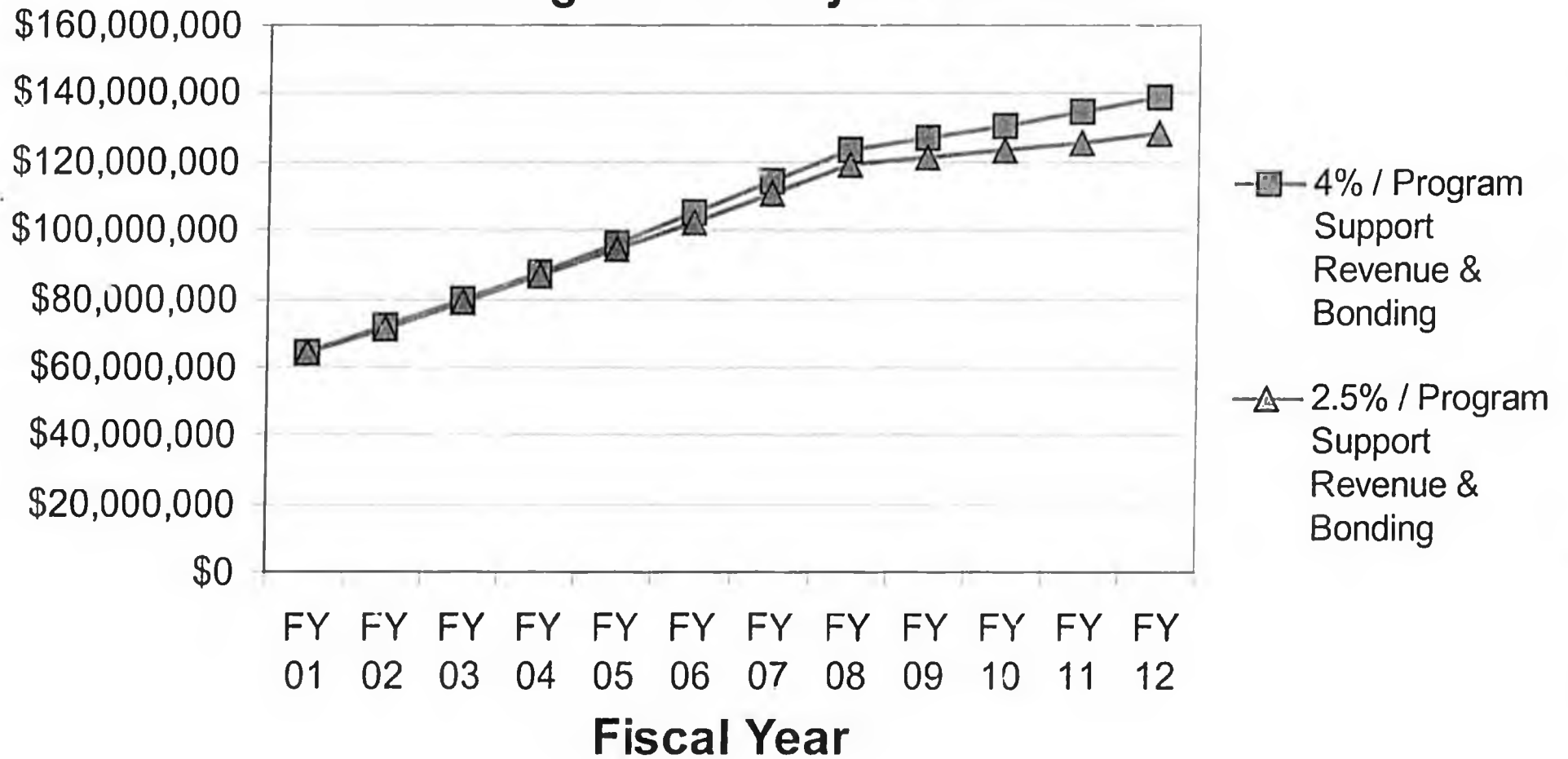
## Proposed Loan Fund Capitalization



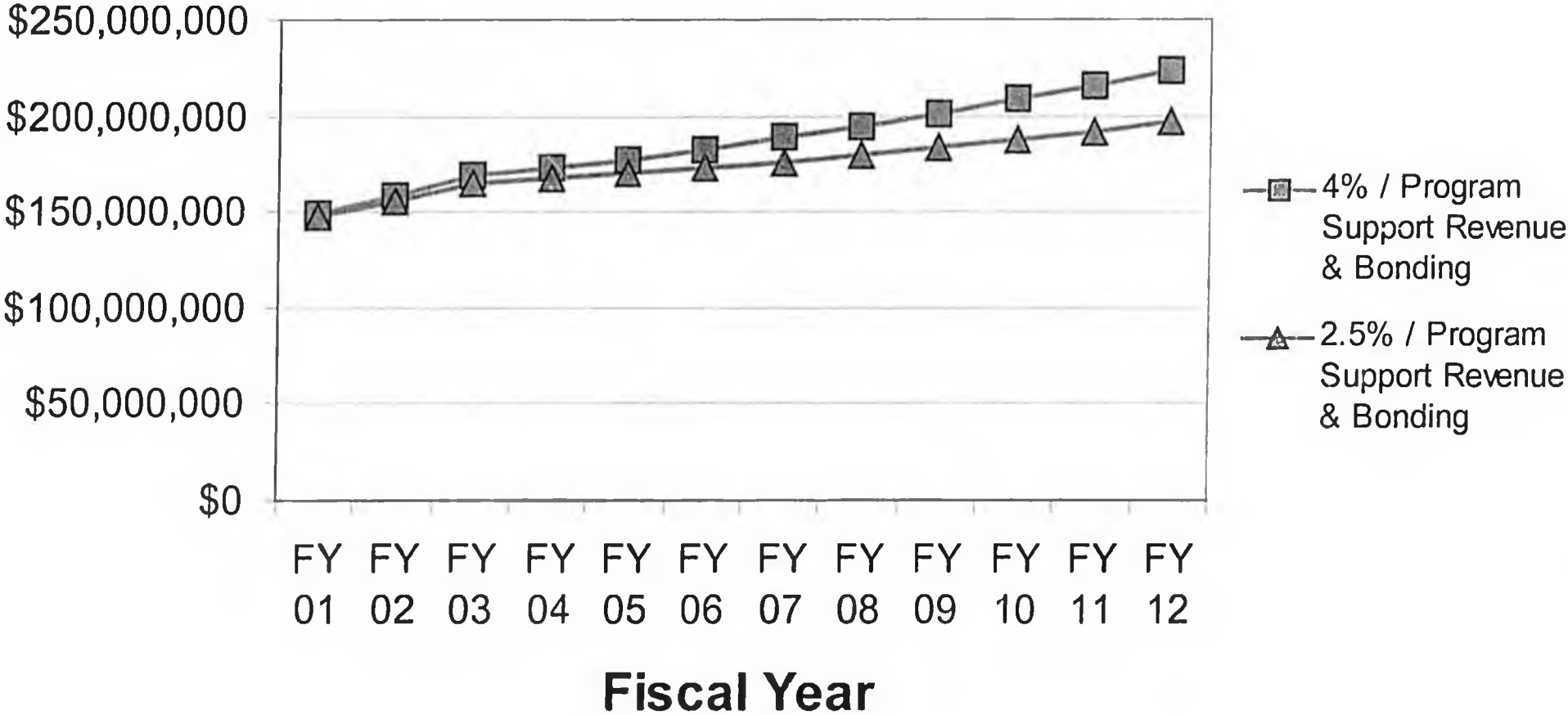
## CW & DW Set-Asides & Program Support Revenue



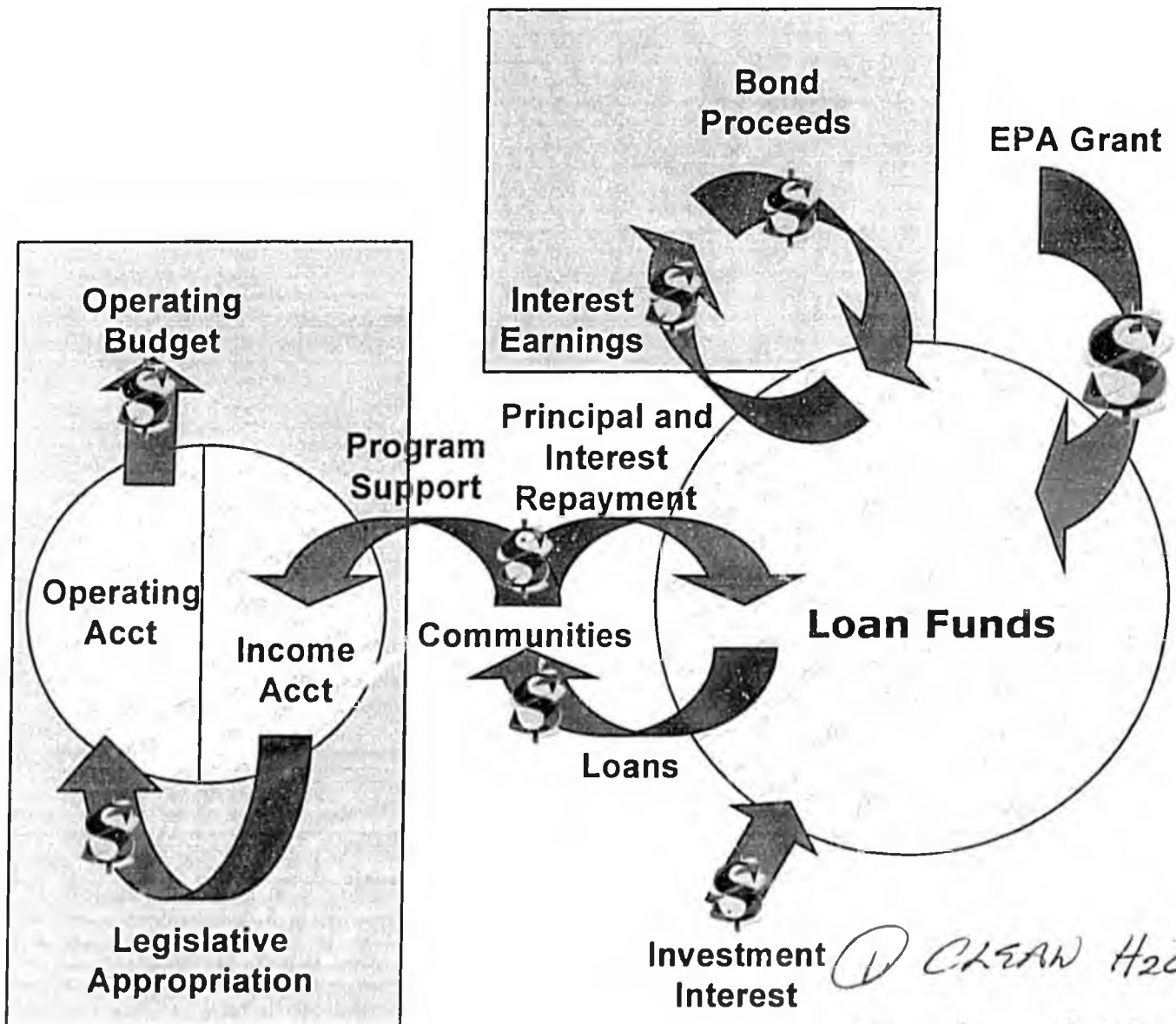
## Drinking Water Projected Growth



### Clean Water Projected Growth



# Proposed Loan Fund Schematic



Investment Interest ① CLEAN H<sub>2</sub>O

② legislation

③ ↓ interest rates

Rep Mulder likes it.



**MARY P. SIROKY**  
SOUTHEAST AREA PUBLIC MANAGER

**STATE OF ALASKA**  
DEPARTMENT OF  
ENVIRONMENTAL CONSERVATION

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# STATE OF ALASKA

## DEPT. OF ENVIRONMENTAL CONSERVATION

OFFICE OF THE COMMISSIONER

TONY KNOWLES, GOVERNOR

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Juneau, AK 99801-1795  
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<http://www.state.ak.us/dec/>

January 31, 2000

The Honorable John Harris, Co-Chair  
The Honorable Carl Morgan, Co Chair  
House Community and Regional Affairs  
Committee  
Alaska State Legislature  
Juneau, AK 99801

Re: Request for Hearing on HB 304

Dear Representatives Halcro and Harris:

The Office of the Governor and the Department of Environmental Conservation request that a hearing be scheduled for HB 304, the clean water fund/drinking water fund bill. This bill is important to Alaskans for many reasons. This bill affords communities the opportunity to obtain low cost loans for drinking water and sewer projects while reducing the need for general funds. A safe source of drinking water and a sanitary means of sewage disposal are basic to the health of our communities. Adequate sewer and water also form the infrastructure needed for economic growth.

This legislation is a win - win for communities, state government and for Alaskans. It provides for healthy communities, good infrastructure and growing economies. For this reason we ask that hearings be scheduled as soon as possible. Enclosed is a bill analysis, fact sheet and copy of an Alaska Municipal League Resolution. If you wish to discuss this legislation, please call me or Dan Easton at 465-5135. Thank you for your consideration.

Sincerely,



Michele Brown  
Commissioner

Enclosures

*Healthy People, Healthy Environment*

**HOUSE BILL 304**  
**SENATE BILL 210**

**SECTIONAL ANALYSIS**

Introduction. This bill authorizes revenue bonds to be sold to make available bond receipts for the Alaska Drinking Water Fund by providing the same bonding authority that currently exists with the Alaska Clean Water Fund. The bill also creates two administrative funds to provide the authority to use a portion of the repayments being made on the loans to support program operations for both Funds. And it clarifies the uses of the Alaska Drinking Water Fund to ensure that its purposes conform to current federal statutes.

Section 1 and 2. AS 37.15.560 (a) (b). **BOND AUTHORIZATION-** Authorizes the state bond committee to issue and sell bonds to raise money to be placed into the **Alaska Drinking Water Fund**. Because these are revenue bonds, they can be issued when the committee decides and this does not require a public vote. The committee may enter into agreements and perform those functions that are normally required to accomplish the task of issuing and selling bonds.

Section 3. AS. 37.15.565. **BOND REDEMPTION FUND-** A new bond redemption fund is established as the **Alaska Drinking Water Fund Revenue Bond Redemption Fund**. This is a standard industry technique for making it easier and more accountable to perform the many functions necessary in the bond issuance and sales process. And also, to provide accountability for any future principle and interest payments and any premium redemption on the bonds.

Sections 4, 5, 6, 7. AS 37.15.570(c)(d)(e)(f) **BOND TERMS-** The state bond committee may issue, sell, control or redeem bonds for the **Alaska Drinking Water Fund** in such a way as to achieve the greatest advantage for the State. They can make decisions based upon the market conditions of that moment and do not require approval of another agency or group to execute these decisions. The committee will decide the level of security required from the fund that will provide this collateral security. A trustee may be appointed by the committee to perform all necessary functions as directed by the committee. The committee must give due regard to the federal requirements of this drinking water fund, but any decisions made after giving this consideration are final. Bond resolutions that reference these statutes shall be regarded as having given this consideration.

Section 8. AS 37.15.573. **BOND RESOLUTION-** The committee must adopt a bond resolution to issue bonds for the **Alaska Drinking Water Fund**. The resolution will contain those items that are necessary to identify and define the bonds and the bond sales process.

Section 9. AS 37.15.575. **STATE AID INTERCEPT-** This paragraph defines the procedure for allowing the State to intercept or garnish other legitimate sources of State aid should a community default on a loan from the **Alaska Drinking Water Fund**. This paragraph is included in the legislation to enhance investor confidence in the program and ultimately, lower

program costs.

Section 10 AS 37.15.580. PLEDGE OF THE STATE- The committee has the right to make contracts for any bonding effort for the **Alaska Drinking Water Fund** and not have the terms of those contracts altered by any subsequent state action. The bond investors also have the right to rely upon the terms of any contracts.

Section 11. AS 37.15.583. ENFORCEMENT BY BONDOWNER- For any resolution of disagreements between the bondowners and the committee involving a bonding issue of the **Alaska Drinking Water Fund**. 10% or more of the owners of any series or issue of the bonds can bring suit in Superior Court in Juneau. The amount of 10% was selected to prevent frivolous suits from being brought.

Section 12. AS 37.15.585. AMOUNTS REQUIRED FOR PAYMENTS- Each year the committee will inform the commissioners of the departments of Environmental Conservation and Revenue of the amounts needed in that year to pay for the costs of issuing or maintaining the bonds from the **Alaska Drinking Water Fund**. The notice will be given at this time so that the departments will be able to incorporate these numbers into their financial planning for the next fiscal year.

Section 13. AS 37.15.587. PURPOSES AND SUFFICIENCY OF REVENUE- Bond proceeds will be used to build projects that are eligible in the **Alaska Drinking Water Fund** program. No bonds will be issued if there is not enough security available in the fund to make it prudent to sell the bonds.

Section 14. AS 37.15.590. REFUNDING- If it is in the best interests of the State, the committee will refund all or some of the bonds for the **Alaska Drinking Water Fund**. They do not need any authority from the voters or the legislature to do this. The committee will follow the defined procedures to conduct the refunding process. The committee is authorized to incur the expenses inherent with this process. A trustee may be appointed to conduct this process. The trustee has the right to invest funds in short-term federal instruments until the refunding proceeds are needed.

Section 15, 16, 17 AS 37.15.605(1), (3), (7) DEFINITIONS. These sections update the definitions to include the **Alaska Drinking Water Fund** and the funds bonding accounts.

Section 18 AS 46.03.034 ALASKA CLEAN WATER ADMINISTRATIVE FUND. Replaces the current Alaska Clean Water Account with Alaska Clean Water Administrative Fund which is composed of the 1). Alaska Clean Water Administrative Operating Account that can be used to pay for the Departments costs in managing the fund and the 2). Alaska Clean Water Administrative Income Account to receive payment of fees and earnings of the Alaska Clean Water Administrative Fund.

Section 19 AS 46.03.035. FEES CHARGED FOR THE LOANS MADE FROM THE ALASKA CLEAN WATER FUND. This authorizes the department to charge and collect reasonable fees

for making and servicing loans.

Section 20 AS 46.03.036 ALASKA DRINKING WATER FUND. This section is updated so that the proceeds and interest from the sale of bonds can be deposited into the fund and well as funding the administration of the fund. The requirement is set that municipalities wishing to borrow money have to have the authority to incur debt and establish a source of revenue for payment. Regulations are required that set out criteria for priority setting, standards for borrowers eligibility, types of projects to be funded and long term interest rates, standards for self sufficiency, collateral and loan terms.

Section 21. AS 46.03.038 ALASKA DRINKING WATER ADMINISTRATIVE FUND. This fund is set up the same as the Alaska Clean Water Administrative Fund in Section 18 with a 1). Alaska Drinking Water Administrative Operating Account and the 2). Alaska Drinking Water Administrative Income Account to receive payment of fees and earnings of the Alaska Clean Water Administrative Fund.

Section 22. AS46 03.039 FEES CHARGED FOR LOANS MADE FROM THE ALASKA DRINKING WATER FUND. This authorizes the department to charge and collect reasonable fees for making and servicing loans.

Section 23. Clarifies that this portion of the legislation would create a change in Civil Procedure 3 and cause all actions to be filed in Superior Court in Juneau. The second paragraph recognizes that in order for this procedure change to be in effect, this section must receive a two-thirds majority vote of each house as required by Article IV, Section 15, Constitution of the State of Alaska.

Section 24. Specifies that the regulations adopted under this statute may not take effect before the statutory effective date of sections 1 through 22.

Section 25. States that section 24 takes effect immediately upon passage of the statute.



Alaska Department of Environmental Conservation  
Division of Facility Construction and Operation  
Municipal Loans Program

**Water Bond Bill Fact Sheet**

January 14, 2000

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**What does the legislation do?**

Authorizes DEC to:

- Sell bonds as a means of capitalizing the Alaska Drinking Water Fund; and
- Designate a portion of the interest charged on Drinking Water and Clean Water program loans to help pay for program operations.

**What are the Drinking Water and Clean Water Loan Programs?**

DEC-operated loan programs that offer low-interest loans to municipalities for drinking water, sewerage and other water-quality construction projects.

**How are the programs funded?**

Each year the State may apply for two federal capitalization grants: one for the Drinking Water Loan Program and one for the Clean Water Loan Program. Both federal grants require a 20 percent state match. In state fiscal year 2000, the State received \$15.5 million in federal grants and contributed \$3.1 million in state funds.

In addition to annual contributions of state and federal capitalization money, the funds also earn interest. Funds that have yet to be loaned out are invested in interest bearing accounts and earn investment interest. Communities also pay interest when they repay their loans. Both investment and repayment interest must, by federal law, be retained in the Alaska Drinking Water and Clean Water Funds and thus contribute to the growth of the Funds.

**What are the rules about how the programs are operated?**

The funds must be used in accordance with federal rules derived from the Safe Drinking Water Act for the Alaska Drinking Water Fund and the Clean Water Act for the Alaska Clean Water Fund. The federal rules are complex, but an important concept is central: Once money is deposited into a fund, it must remain in the fund and unavailable for any purposes other than to make loans to communities – except in a very limited number of special cases.

### **How do the programs work?**

Each year DEC mails applications to all Alaska municipalities. Interested communities complete and return the applications proposing specific projects for funding. DEC ranks the applications based primarily on the degree of public health benefit expected from the projects. Loan agreements with municipalities are executed for the highest-ranking projects. As construction costs are incurred, monies are drawn from the Funds and loaned to municipalities. The municipalities pay back the loans when projects are complete. This money is returned to the loan Funds where it becomes available for other projects.

For each loan project, DEC assigns an engineer to assist the community in selecting an appropriate project design, in getting permits and other authorizations, and generally in serving as an advisor to the community on the project. There is a broad range of assistance provided depending on each community's capabilities and needs. The engineers also approve all payments to communities to make certain that all costs are eligible for funding under state and federal law.

### **Why is bonding authority needed?**

Until now, the State of Alaska has met its match obligation using general funds. However, the federal government recently offered the states another option for meeting their match requirements. The option is to use interest retained in the Funds in a form of short-term bonding exercise to meet the state match requirement. In essence, this form of bonding lets the states convert interest earned by the funds into bonds and then use the bonds to meet the state match requirement. To take advantage of that option requires that state statutes provide bonding authority. The statutes establishing the Alaska Clean Water Fund currently provide authority to use bonds for financing. That authority does not exist for the Alaska Drinking Water Fund.

### **Since the statutes currently provide authority to use bonds to capitalize the Alaska Clean Water Fund, does DEC plan to exercise that authority in FY 2001?**

Yes. DEC intends to use the existing Clean Water Loan Program bonding authority to obtain the \$1.5 million in state match needed to capture the \$7.5 million in federal grant funds expected for FY 2001. That will save the State \$1.5 million in general funds in FY 2001.

**What will the bonding costs be?**

The costs for preparing bond documents and finance charges will be approximately \$50,000.

**What about the Alaska Drinking Water Fund? Can the State do the same for the Alaska Drinking Water Fund?**

Not until two things happen. First, the statutes need to be amended to provide authority to use bonds to capitalize the Alaska Drinking Water Fund. Second, there needs to be an amount of interest earnings in the Alaska Drinking Water Fund equal to the state match requirement plus bonding costs. In other words, there needs to be about \$1.5 million in interest in the Fund to execute a short-term bonding exercise. Because the Alaska Drinking Water Fund is much younger than the Alaska Clean Water Fund, there aren't enough interest earnings in the fund to take advantage of this short-term bonding option in FY 2001.

**When will the State be in a position to use short-term bonds to meet its capitalization obligation for the Alaska Drinking Water Fund?**

There should be enough interest earnings in the Alaska Drinking Water Fund by FY 2002. With enough interest and bonding authority for this Fund, the State would be positioned to save \$1.5 million in general funds in the FY 2002 budget.

**What overall savings could the State realize by bonding for both the loan Funds?**

The State could save about \$3 million each year in money needed to capture \$15 million in federal grants. Our hope is to save \$1.5 million beginning in FY 2001 and \$3.0 million in FY 2002 and beyond.

**Will bonding affect the amount of federal grant funds the state qualifies for?**

No. The amount of the federal grant awards will be the same whether the State match comes from general funds or bond proceeds.

**Switching to the second part of this legislation, why is fee authority needed?**

It costs about \$1 million each year to operate the two programs – to provide engineering assistance, to execute loan agreements, to review payment requests and issue payments to communities, to track loan debt, to collect and record repayments from communities, and to pay for audits by CPA firms. Federal law allows states to use a small part of the federal capitalization grants to pay for program costs. For the past few years, DEC has relied entirely on this source to fund program operations. With decreasing federal grant levels, this funding source will not be sufficient to cover program costs – even though those costs are expected to remain stable. Another source of funding is needed. Most states already use a portion of the repayment

interest to pay for program costs. Eventually all states will be doing the same. We think it makes sense in Alaska as well.

**Are personnel and other costs increasing?**

No. The number of personnel and other program costs are expected to remain at current levels for the foreseeable future. We are seeking only to replace the declining federal subsidy.

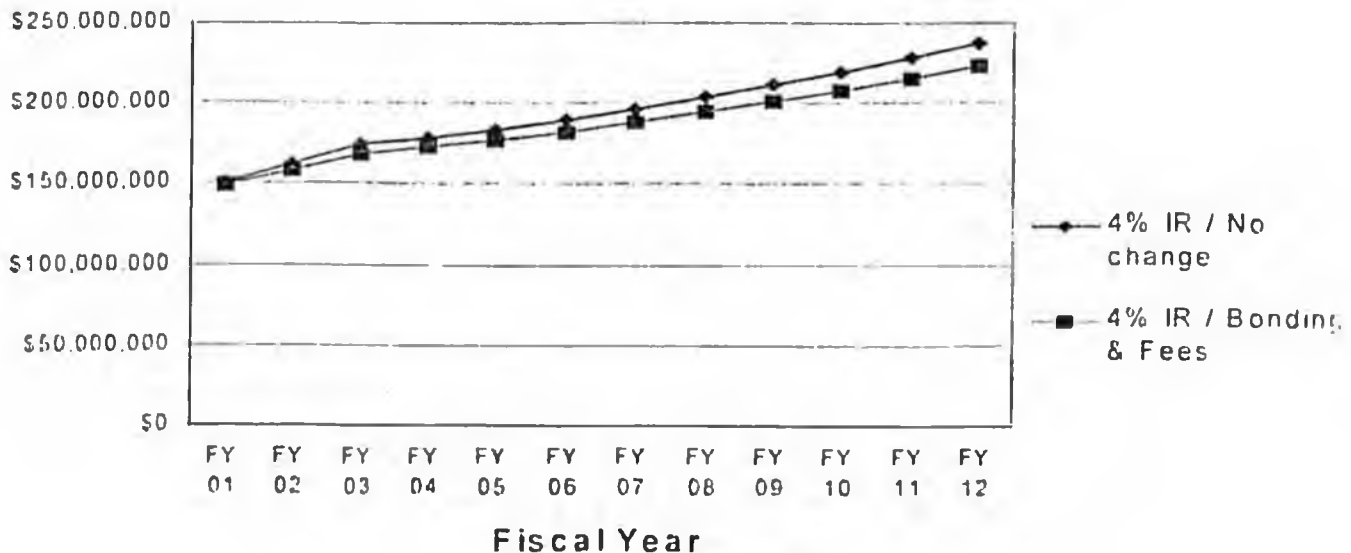
**How will these changes affect the terms of the loans DEC makes to communities? Will costs go up?**

Finance charges on the loans will not go up. In fact we are proposing to lower finance rates. All of the finance charges for the loans are currently treated as interest and returned to the Funds. To assess fees, the finance charges that communities pay would be broken into two parts: a portion that is interest to be returned to the Fund, and a portion that would go to paying for program operations. For example, if the overall financing charge is 2.5 percent, 2 percent might be interest that is returned to the Fund, and 0.5 percent might go to fund program operations. Again though, the overall debt service cost to the municipalities is expected to go down.

**What about the impacts on the amount of money available to loan out? Will the changes reduce the rate of growth of the funds?**

Yes. The changes will result in slower growth in the Funds. For example, the projected annual growth in the Alaska Clean Water Fund over the next 12 years is expected to decrease from 5.3% to 4.6% per year. Similarly the annual growth in the Alaska Drinking Water Fund is expected to slow from 13.8% to 11.9%. Nevertheless, the funds will remain healthy and capable of meeting the expected demand for loans.

**Clean Water Projected Growth**



**What will the bonding costs be?**

The costs for preparing bond documents and finance charges will be approximately \$50,000.

**What about the Alaska Drinking Water Fund? Can the State do the same for the Alaska Drinking Water Fund?**

Not until two things happen. First, the statutes need to be amended to provide authority to use bonds to capitalize the Alaska Drinking Water Fund. Second, there needs to be an amount of interest earnings in the Alaska Drinking Water Fund equal to the state match requirement plus bonding costs. In other words, there needs to be about \$1.5 million in interest in the Fund to execute a short-term bonding exercise. Because the Alaska Drinking Water Fund is much younger than the Alaska Clean Water Fund, there aren't enough interest earnings in the fund to take advantage of this short-term bonding option in FY 2001.

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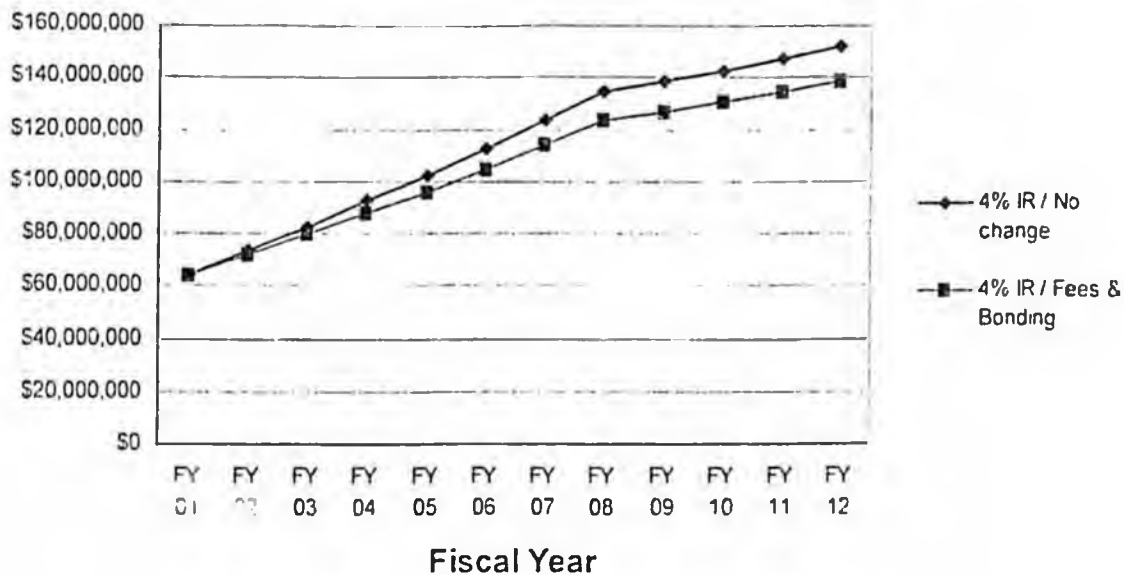
**Will bonding affect the amount of federal grant funds the state qualifies for?**

No. The amount of the federal grant awards will be the same whether the State match comes from general funds or bond proceeds.

**Switching to the second part of this legislation, why is fee authority needed?**

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### Drinking Water Projected Growth



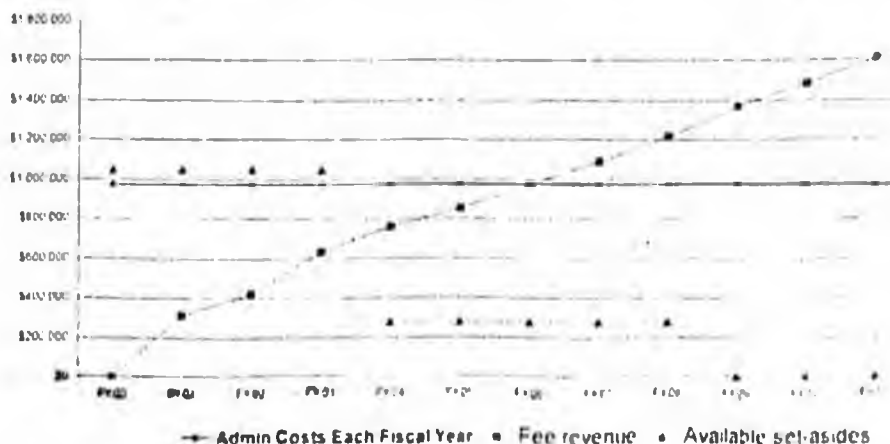
#### What else needs to happen?

The new finance charge structure and amounts need to be established in regulation (18 AAC 76). We are proposing a structure that satisfies the conflicting goals of trying to provide the lowest loan cost to the communities and still protect the long-term financial integrity of the Funds. We are proposing a flat loan rate of 2.5% that graduates to a bond-indexed rate when the municipal bond index hits 8 percent. Included within that rate is a designated 0.5% to pay for program administration. For purposes of comparison, the current interest rate is about 4.3%.

#### Will this cover program costs?

The expected revenue will be small at first and gradually increase. At the proposed rate of 0.5%, we expect to collect enough money to cover operating expenses. The following chart shows the relationship between the expected revenues and program costs.

### CW & DW Set-Asides & Fee Revenue Versus Admin Costs



**When interest rates go down, what will happen to the existing loans made at higher rates? Will communities be stuck with the higher rate loans?**

We will offer all communities with existing loans the opportunity to convert to the new rate structure. No communities will be stuck with higher rate loans.

**If more fees are collected than are needed to cover program costs, what will happen?**

Fees will be deposited into an income account. Each year we will request that the legislature appropriate funds from the income account to an operating account to cover program costs. If there are more funds in the income account than are needed to cover program costs, we will use those excess funds to make loans to communities.



**RESOLUTION OF THE ALASKA MUNICIPAL LEAGUE  
AND ALASKA CONFERENCE OF MAYORS**

**RESOLUTION 00-01**

**A RESOLUTION URGING THE LEGISLATURE TO PASS THE  
GOVERNOR'S ADEC BONDING AND FEE AUTHORITY BILL**

**WHEREAS**, it is important that the State promote the health of its citizens and encourage the growth of infrastructure by assisting communities in developing safe water supplies and sanitary means of wastewater treatment and disposal; and

**WHEREAS**, the Alaska Clean Water Fund and the Alaska Drinking Water Fund are important financial alternatives for communities, having so far provided \$160,000,000 in subsidized, low-interest loans to communities for projects of this type; and

**WHEREAS**, Governor Knowles has introduced a bill to provide for the issuance of bonds as an alternative to using state general funds to capitalize the loan Funds; and

**WHEREAS**, the alternative financing method provided by the bill will allow the State to continue securing federal grants to grow the Funds and the amounts available for loans; and

**WHEREAS**, the alternative financing method provided by the bill will save approximately \$1.5 million in state general fund expenditures annually; and

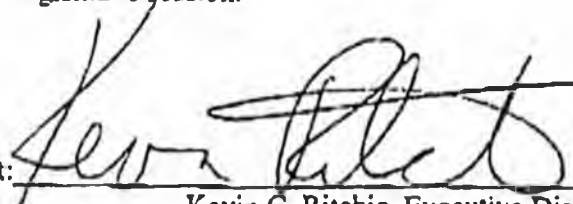
**WHEREAS**, the bill also reserves a portion of the finance charges paid on the loans to pay the costs of administering the loan programs to offset decreasing federal grant funding available; and

**WHEREAS**, reserving a portion of the loan finance charges for program administration will not increase the cost of the loans to the communities of the State nor increase the need for any State general fund dollars;

**NOW, THEREFORE, BE IT RESOLVED** by the Alaska Municipal League and Alaska Conference of Mayors that the Alaska State Legislature is urged to adopt the ADEC Bonding and Fee Authority legislation during the 2000 legislative session.

Adopted on January 27, 2000.

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Attest:   
Kevin C. Ritchie, Executive Director

HB 304

TONY KNOWLES

STATE OF ALASKA

OFFICE OF THE GOVERNOR

JUNEAU

January 20, 2000

The Honorable Brian Porter  
Speaker of the House  
Alaska State Legislature  
State Capitol  
Juneau, AK 99801-1182

Dear Speaker Porter:

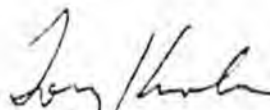
Low-interest state loans from the Alaska Drinking Water Fund and the Alaska Clean Water Fund offer municipalities the means to build drinking water and sewage facility projects. This bill I transmit today will allow the state to use revenue bonds to capitalize the Alaska Drinking Water Fund.

Both the Drinking Water and Clean Water funds are capitalized by annual federal grants that require a 20 percent state match. Bond revenues will help provide the state match for federal drinking water project money. But the state is only authorized to sell bonds for the Clean Water Fund. It makes sense to extend this leveraging power to the Drinking Water Fund.

As with existing law, the bill requires the state bond committee to conduct its activities in the best interests of the state, in a manner that will accomplish the most advantageous sale of the bonds. The bill also provides for a new, self-supporting structure to pay for the costs of operating these important loan programs.

I urge your prompt consideration and passage of this bill.

Sincerely,



Tony Knowles  
Governor



Alaska Department of Environmental Conservation  
Division of Facility Construction and Operation  
Municipal Loans Program

Interest Structure and Fee Rate Regulation Amendments

FACT SHEET

February 1, 2000

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**What do the proposed regulation amendments do?**

The proposed changes would:

- Lower the charges on subsidized loans to communities for drinking water and wastewater projects;
- Designate a portion of the new, lower finance charges to help pay for the loan programs;
- Remove superfluous or expired federal program requirements from the loan program regulations;
- Make other minor changes to clarify the intent of the loan program; and
- Repeal an unused and unnecessary chapter of the Department's regulations (18 AAC 77).

**What are the Drinking Water and Clean Water loan programs?**

DEC-operated loan programs that offer low-interest loans to municipalities for drinking water, sewerage and other water-quality construction projects.

**What are the current finance loan charges?**

The finance charges are found in 18 AAC 76.080 and 76.255. The table below outlines the current charges for both programs.

<b>Loan Term</b>	<b>Finance Charge</b>
5 - 20 years	75% of market rate ( 4.3% currently)
2 - 5 years	The greater of 2.5% or 33% of the market rate
Less than 2 years	The greater of 1.5% or 25% of the market rate

**What would the new finance charges be?**

The proposed amendments would lower the finance charge for each loan term for the two programs. Most loans made now are for 20-year terms and contain a finance rate of about 4.3%. The new structure would have loans with a flat finance charge of 2.5% or 30% of the current bond index; whichever is greater, for a term of 5-20 years. For a term of less than 5 years; the finance charge would be a flat 1% or 12.5 % of the current bond index, whichever is greater. These changes also propose to give a community

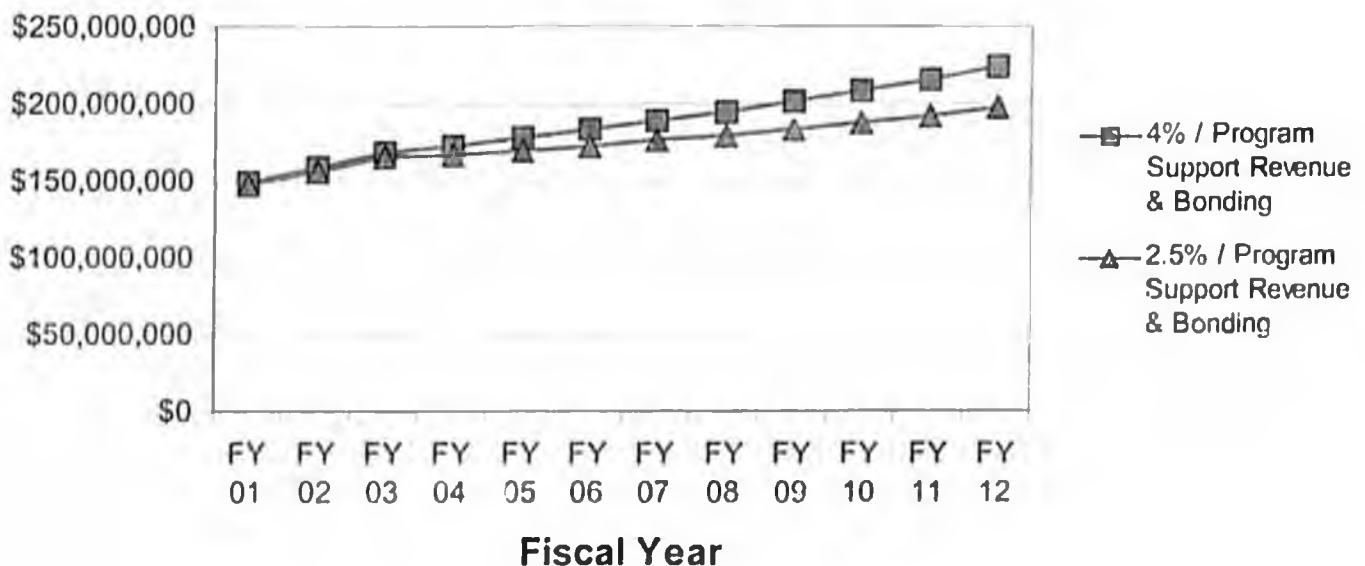
with an existing loan, one year to convert to a new finance rate. The tables below illustrate the differences between the existing rates and the proposed rates in the amendments.

Current		Proposed	
Loan Term	Finance Charge	Loan Term	Finance Charge
5-20 years	75% of market (4.3% today)	5- 20 years	2.5% or 30% of market
2- 5 years	2.5% or 33% of market	0- 5 years	1% or 12.5% of market
0- 2 years	1.5% or 25% of market		

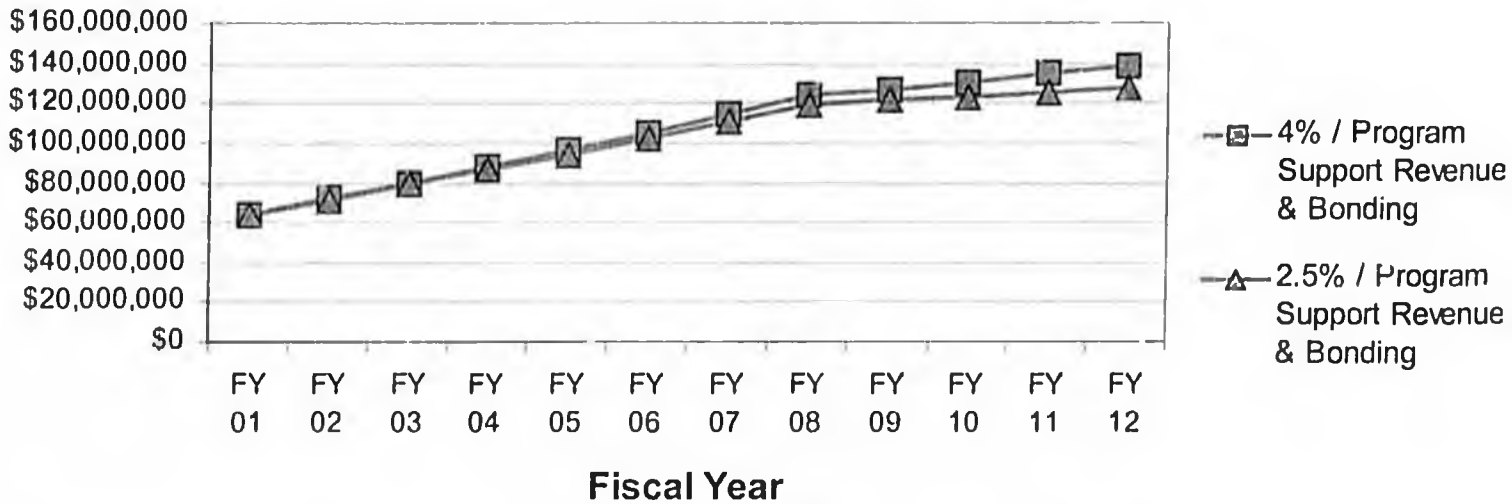
### How were these rates established?

The rates were established to make the loans more attractive. A series of projections were used to examine the impacts of different finance charges on the growth of the funds from which loans are made. The smallest finance charge that would protect the long-term integrity of the Funds was selected. To protect the Funds during inflationary periods, finance charges graduate from a flat fee to a percentage of the Municipal Bond Index when the index hits or exceeds approximately 8 percent. The charts below demonstrate the effects of different finance charges upon the growth of the Funds. By reducing the finance charge from an average of 4% to 2.5%, we reduce the rate of growth from 4.6% to 3.2% in the Clean Water Fund and 11.9% to 10.3% in the Drinking Water Fund. Both of these exercises show that the Funds will continue to grow even with the lower finance charges.

### Clean Water Projected Growth



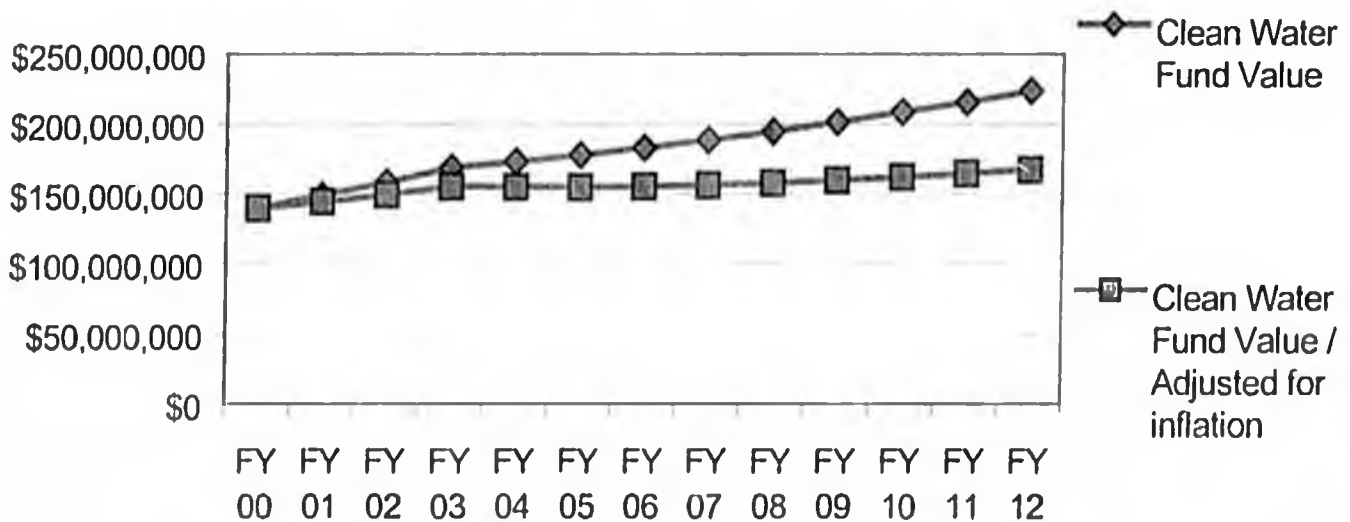
### Drinking Water Projected Growth



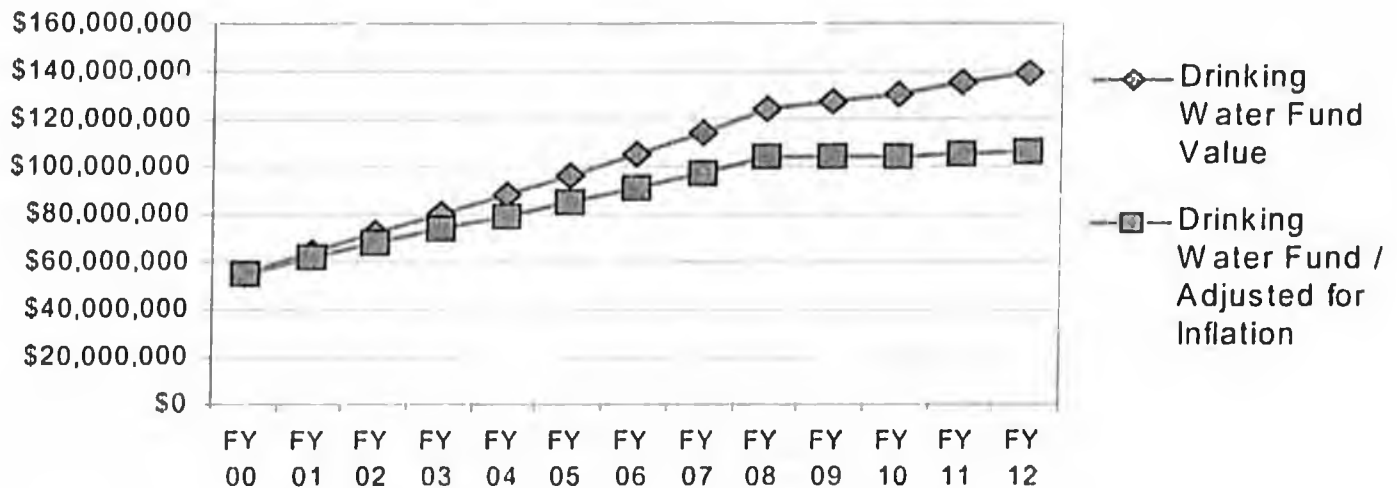
**How would the new rates affect the real or inflation-adjusted growth of the Funds?**

We examined whether these proposed actions would reduce the ability of the program to fund an equivalent amount of projects in the future. For our analysis, we assumed that inflation would grow at an average rate of 3% (a conservative rate used by the Permanent Fund Corporation). The graphs below plot the value of the two Funds using unadjusted and inflation-adjusted factors and demonstrate that the amount of money available for loans will continue to grow.

### CLEAN WATER FUND



## DRINKING WATER FUND



### Switching to the next change, why is DEC proposing to use a portion of the loan finance charge to pay program operating costs?

These proposed changes are found in new sections to the regulations, 18 AAC 76.085 and 76.257. It costs about \$1 million each year to operate the two programs – to provide engineering assistance, to execute loan agreements, to review payment requests and issue payments to communities, to track loan debt, to collect and record repayments from communities, and to pay for audits by CPA firms. Federal law allows states to use a small part of the grants received from EPA to pay for program costs. DEC has relied on this source to fund program operations. With decreasing federal grant levels, this funding source will not be sufficient to cover program costs – even though those costs are expected to remain stable. Another source of funding is needed. Most states already use a portion of the repayment interest to pay for program costs. Eventually all states will be doing the same. We think it makes sense in Alaska as well.

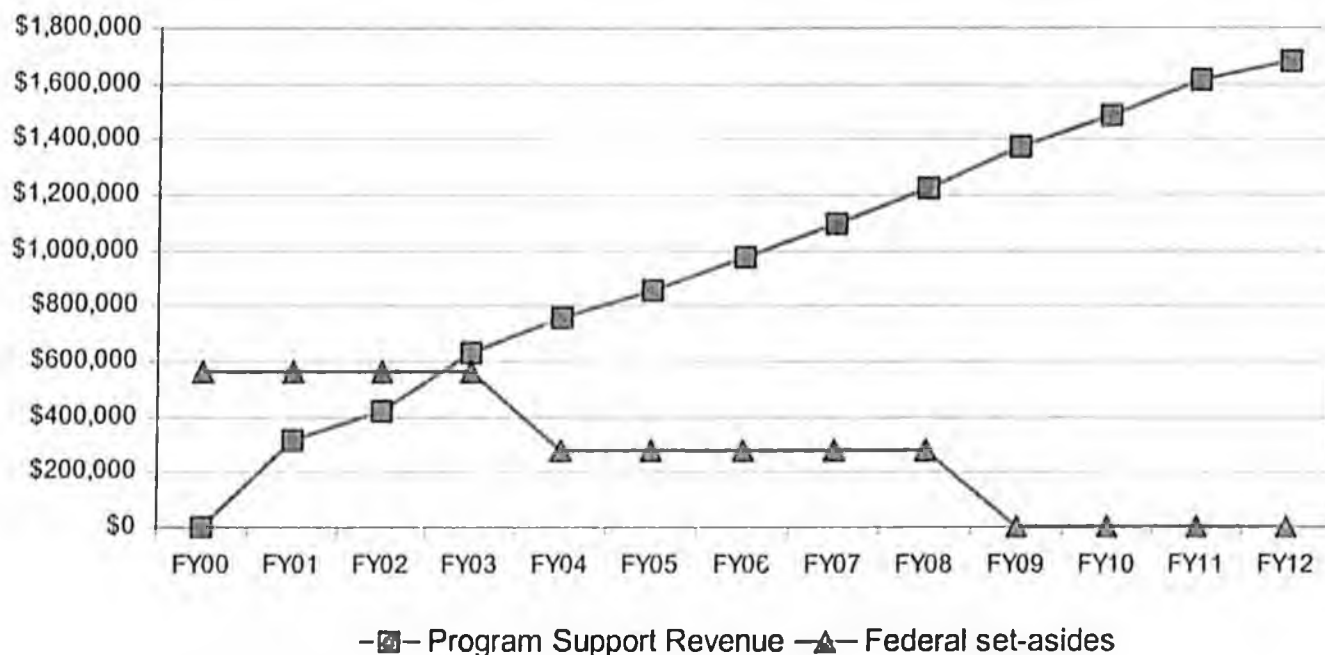
### Is this needed to cover increasing numbers of personnel and other increases in administrative costs?

No. The number of personnel and other program costs are expected to remain at current levels for the foreseeable future. We are seeking only to replace the declining federal subsidy.

### How do projected revenues compare with program administration costs?

Adding an additional revenue stream will extend the life of the federal subsidy. The following chart shows the relationship between the federal set-asides and expected revenues.

## CW & DW Set-Asides & Program Support Revenue



**When interest rates go down, what will happen to the existing loans made at higher rates? Will communities be stuck with the higher rate loans?**

The proposed regulations allow communities with existing loans to convert to the new rate structure. No communities will be stuck with higher rate loans.

**If more money is collected than is needed to cover program costs, what will happen?**

Funds will be deposited into an income account. Each year we will request that the legislature appropriate funds from the income account to an operating account to cover program costs. If there are more funds in the income account than are needed to cover program costs, we will use those excess funds to make loans to communities.

**As for removing unnecessary federal requirements, why are they in the loan program in the first place?**

The loan program regulations include provisions that were once mandated by federal law, but are no longer required. The concepts behind the federal requirements have merit but most of them have equivalent State requirements that have to be adhered to. By not having to take the extra time, effort and money to address these unneeded issues, communities will save on project costs. Projects can be built by using less money or more capacity can be achieved by using the same amount of money.

## **What specific changes are proposed to remove these old requirements?**

A listing of the changes is presented here:

- Section 030- discontinues two expired federal application requirements. Sections (a)(4) and (a)(7) clarifies that project facility plans and value-engineering studies are no longer required by federal law to be submitted as part of the assistance application.
- Section 060- discontinues the federal requirement for using Davis-Bacon wages on clean water construction projects. Section (a)(9) allows DEC to use Alaska Department of Labor rates instead.
- Sections 020 and 220- discontinues the requirement for federal approval of the project priority lists. The federal government does not have the authority to approve these State generated lists. Only a state may create and approve these lists. Sections 020(a) and 220(a) and (d) clarify this point.
- Section 230(c)- clarifies that EPA does not approve the department's intended use plans. Again, only a state may create and approve this plan.

## **What other regulation changes are proposed?**

There are two other proposed changes and they are fairly simple. They are:

- Sections 030(a)(2) and 225(b)(2)- clarifies when a community submits a loan acceptance resolution. The Attorney General has opined that a community must have an ordinance that formally accepts an offer of financial assistance. These sections clarify that point.
- Section 245(a)(5)- clarifies that operation and maintenance manuals are not required on some projects. EPA does not require that operation and maintenance manuals be provided on all types of projects. This section states that the Department will determine if the manual is needed for a project.

## **DEC is proposing to eliminate 18 AAC 77 in its entirety, why?**

This chapter was established to implement a program that was created in statute and proposed to receive State funding. The accounts have never received any funding and therefore, they have never made any loans. The regulations are for a program that is not funded now and probably never will be. We propose to eliminate the unused and unneeded regulations.



Alaska Department of Environmental Conservation  
Division of Facility Construction and Operation  
Municipal Loans Program

**Loan Fund Bonding and Fee Authority Legislation  
FACT SHEET**

February 1, 2000

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**What does the legislation do?**

Authorizes DEC to:

- Sell bonds as a means of capitalizing the Alaska Drinking Water Fund; and
- Designate a portion of the interest charged on Drinking Water and Clean Water program loans to help pay for program operations.

**What are the Drinking Water and Clean Water Loan Programs?**

DEC-operated loan programs that offer low-interest loans to municipalities for drinking water, sewerage and other water-quality construction projects.

**How are the programs funded?**

Each year the State may apply for two federal capitalization grants: one for the Drinking Water Loan Program and one for the Clean Water Loan Program. Both federal grants require a 20 percent state match. In state fiscal year 2000, the State received \$15.5 million in federal grants and contributed \$3.1 million in state funds.

In addition to annual contributions of state and federal capitalization money, the funds also earn interest. Funds that have yet to be loaned out are invested in interest bearing accounts and earn investment interest. Communities also pay interest when they repay their loans. Both investment and repayment interest must, by federal law, be retained in the Alaska Drinking Water and Clean Water Funds and thus contribute to the growth of the Funds.

**What are the rules about how the programs are operated?**

The funds must be used in accordance with federal rules derived from the Safe Drinking Water Act for the Alaska Drinking Water Fund and the Clean Water Act for the Alaska Clean Water Fund. The federal rules are complex, but an important concept is central: Once money is deposited into a fund, it must remain in the fund and unavailable for any

purposes other than to make loans to communities – except in a very limited number of special cases.

### **How do the programs work?**

Each year DEC mails applications to all Alaska municipalities. Interested communities complete and return the applications proposing specific projects for funding. DEC ranks the applications based primarily on the degree of public health benefit expected from the projects. Loan agreements with municipalities are executed for the highest-ranking projects. As construction costs are incurred, monies are drawn from the Funds and loaned to municipalities. The municipalities pay back the loans when projects are complete. This money is returned to the loan Funds where it becomes available for other projects.

For each loan project, DEC assigns an engineer to assist the community in selecting an appropriate project design, in getting permits and other authorizations, and generally in serving as an advisor to the community on the project. There is a broad range of assistance provided depending on each community's capabilities and needs. The engineers also approve all payments to communities to make certain that all costs are eligible for funding under state and federal law.

### **Why is bonding authority needed?**

Until now, the State of Alaska has met its match obligation using general funds. However, the federal government recently offered the states another option for meeting their match requirements. The option is to use interest retained in the Funds in a form of short-term bonding exercise to meet the state match requirement. In essence, this form of bonding lets the states convert interest earned by the funds into bonds and then use the bonds to meet the state match requirement. To take advantage of that option requires that state statutes provide bonding authority. The statutes establishing the Alaska Clean Water Fund currently provide authority to use bonds for financing. That authority does not exist for the Alaska Drinking Water Fund.

### **Since the statutes currently provide authority to use bonds to capitalize the Alaska Clean Water Fund, does DEC plan to exercise that authority in FY 2001?**

Yes. DEC intends to use the existing Clean Water Loan Program bonding authority to obtain the \$1.5 million in state match needed to capture the \$7.5 million in federal grant funds expected for FY 2001. That will save the State \$1.5 million in general funds in FY 2001.

**What will the bonding costs be?**

The costs for preparing bond documents and finance charges will be approximately \$50,000.

**What about the Alaska Drinking Water Fund? Can the State do the same for the Alaska Drinking Water Fund?**

Not until two things happen. First, the statutes need to be amended to provide authority to use bonds to capitalize the Alaska Drinking Water Fund. Second, there needs to be an amount of interest earnings in the Alaska Drinking Water Fund equal to the state match requirement plus bonding costs. In other words, there needs to be about \$1.5 million in interest in the Fund to execute a short-term bonding exercise. Because the Alaska Drinking Water Fund is much younger than the Alaska Clean Water Fund, there aren't enough interest earnings in the fund to take advantage of this short-term bonding option in FY 2001.

**When will the State be in a position to use short-term bonds to meet its capitalization obligation for the Alaska Drinking Water Fund?**

There should be enough interest earnings in the Alaska Drinking Water Fund by FY 2002. With enough interest and bonding authority for this Fund, the State would be positioned to save \$1.5 million in general funds in the FY 2002 budget.

**What overall savings could the State realize by bonding for both the loan Funds?**

The State could save about \$3 million each year in money needed to capture \$15 million in federal grants. Our hope is to save \$1.5 million beginning in FY 2001 and \$3.0 million in FY 2002 and beyond.

**Will bonding affect the amount of federal grant funds the state qualifies for?**

No. The amount of the federal grant awards will be the same whether the State match comes from general funds or bond proceeds.

**Switching to the second part of this legislation, why is fee authority needed?**

It costs about \$1 million each year to operate the two programs – to provide engineering assistance, to execute loan agreements, to review payment requests and issue payments to communities, to track loan debt, to collect and record repayments from communities, and to pay for audits by CPA firms. Federal law allows states to use a small part of the federal capitalization grants to pay for program costs. For the past few years, DEC has relied entirely on this source to fund program operations. With decreasing federal grant levels, this funding source will not be sufficient to cover program costs – even though those costs are expected to remain stable. Another source of funding is needed. Most states already use a portion of the repayment

interest to pay for program costs. Eventually all states will be doing the same. We think it makes sense in Alaska as well.

**Are personnel and other costs increasing?**

No. The number of personnel and other program costs are expected to remain at current levels for the foreseeable future. We are seeking only to replace the declining federal subsidy.

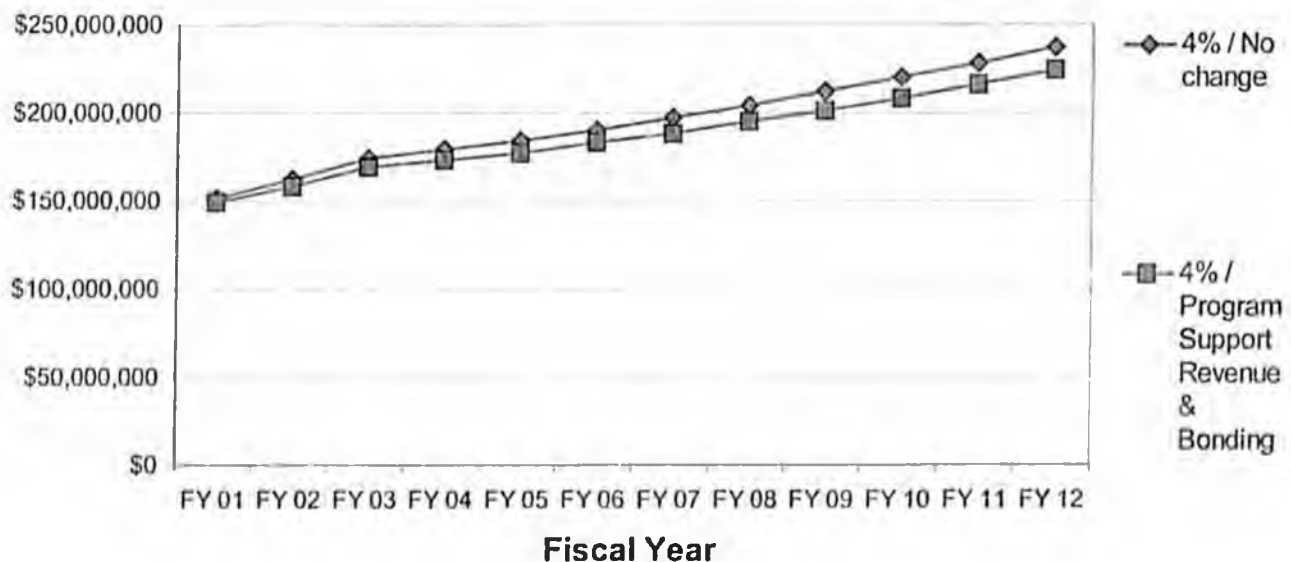
**How will these changes affect the terms of the loans DEC makes to communities? Will costs go up?**

Finance charges on the loans will not go up. In fact we are proposing to lower finance rates. All of the finance charges for the loans are currently treated as interest and returned to the Funds. To assess fees, the finance charges that communities pay would be broken into two parts: a portion that is interest to be returned to the Fund, and a portion that would go to paying for program operations. For example, if the overall financing charge is 2.5 percent, 2 percent might be interest that is returned to the Fund, and 0.5 percent might go to fund program operations. Again though, the overall debt service cost to the municipalities is expected to go down.

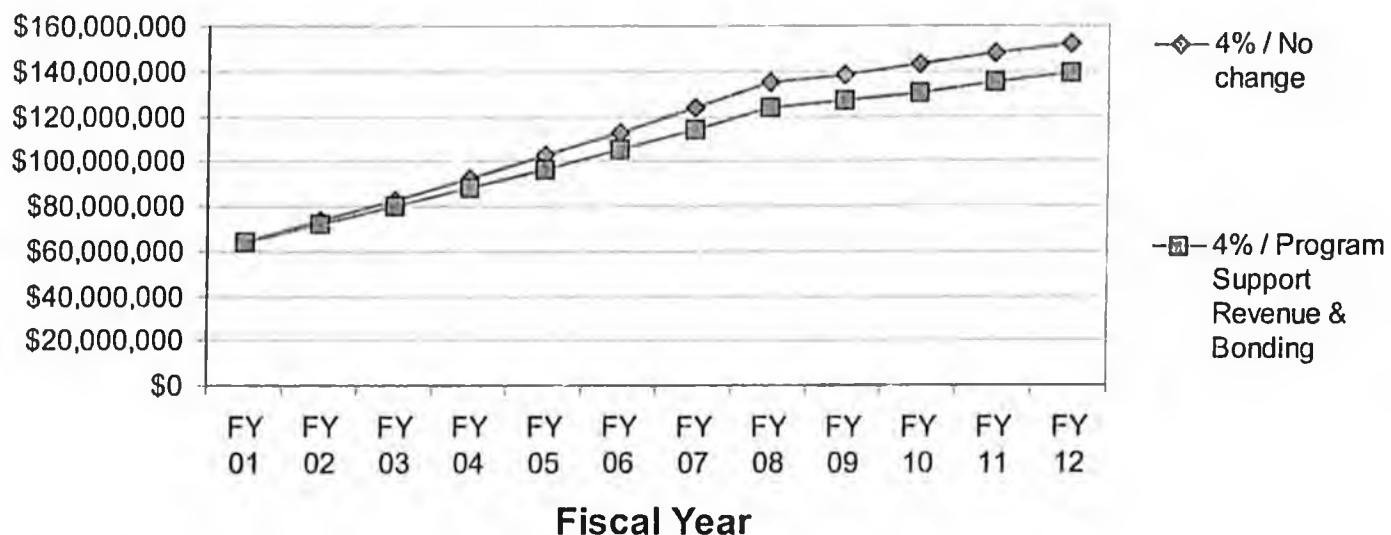
**What about the impacts on the amount of money available to loan out? Will the changes reduce the rate of growth of the funds?**

Yes. The changes will result in slower growth in the Funds. For example, the projected annual growth in the Alaska Clean Water Fund over the next 12 years is expected to decrease from 5.3% to 4.6% per year. Similarly the annual growth in the Alaska Drinking Water Fund is expected to slow from 13.8% to 11.9%. Nevertheless, the funds will remain healthy and capable of meeting the expected demand for loans.

**Clean Water Projected Growth**



### Drinking Water Projected Growth



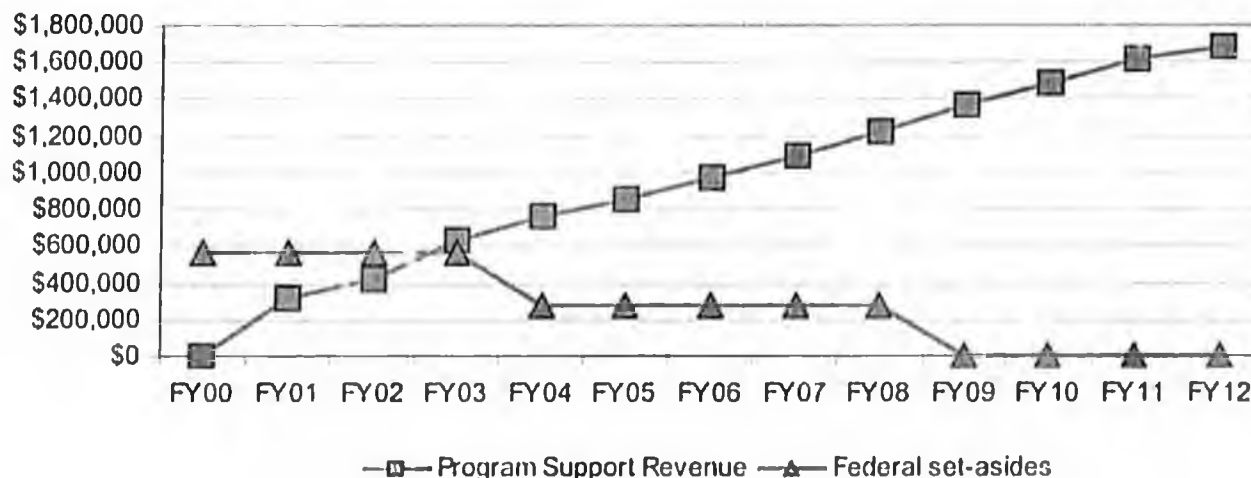
#### What else needs to happen?

The new finance charge structure and amounts need to be established in regulation (18 AAC 76). We are proposing a structure that satisfies the conflicting goals of trying to provide the lowest loan cost to the communities and still protect the long-term financial integrity of the Funds. We are proposing a flat loan rate of 2.5% that graduates to a bond-indexed rate when the municipal bond index hits 8 percent. Included within that rate is a designated 0.5% to pay for program administration. For purposes of comparison, the current interest rate is about 4.3%.

#### Will this cover program costs?

The expected revenue will be small at first and gradually increase. At the proposed rate of 0.5%, we expect to collect enough money to cover operating expenses. The following chart shows the relationship between the expected revenues and program costs.

#### CW & DW Set-Asides & Program Support Revenue



**When interest rates go down, what will happen to the existing loans made at higher rates? Will communities be stuck with the higher rate loans?**

We will offer all communities with existing loans the opportunity to convert to the new rate structure. No communities will be stuck with higher rate loans.

**If more fees are collected than are needed to cover program costs, what will happen?**

Fees will be deposited into an income account. Each year we will request that the legislature appropriate funds from the income account to an operating account to cover program costs. If there are more funds in the income account than are needed to cover program costs, we will use those excess funds to make loans to communities.

(7)

# HOUSE COMMITTEE REPORT

Date Referred to Committee: January 21, 2000

FURTHER REFERRALS:

Judiciary  
Finance

Date of Committee Action: February 8, 2000

The COMMUNITY AND REGIONAL AFFAIRS Committee considered:

HB 304

HOUSE BILL NO. 304

CLEAN WATER FUND/DRINKING WATER FUND

"An Act relating to issuance and sale of revenue bonds to fund drinking water projects, to creation of an Alaska clean water administrative fund and an Alaska drinking water administrative fund, to fees to be charged in connection with loans made from the Alaska clean water fund and the Alaska drinking water fund, and to clarification of the character and permissible uses of the Alaska drinking water fund; amending Rule 3, Alaska Rules of Civil Procedure; and providing for an effective date."

recommends it be replaced with the following committee substitute \_\_\_\_\_  
 the same title  
 a new title

additional referral to \_\_\_\_\_ Committee  
 attached amendment(s)

ADOPTS: \_\_\_\_\_ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept)

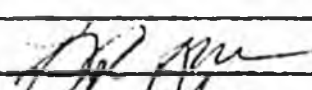
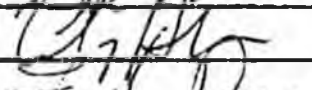

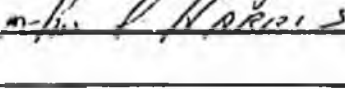
APPROVES PREVIOUS: (Dept/Date)

fiscal note(s) Revenue -  
DEC

fiscal note(s) \_\_\_\_\_

zero fiscal note(s) \_\_\_\_\_

zero fiscal note(s) \_\_\_\_\_

SIGNING WITH RECOMMENDATIONS		DP	DNP	NR	AM
	MURKOWSKI			✓	
	HALCKRO			✓	
	DYSON				✓
	HARRIS	✓			

CHAIR'S SIGNATURE





# Alaska State Legislature

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## HOUSE COMMITTEE ON COMMUNITY AND REGIONAL AFFAIRS

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Representative John Harris, Representative Carl Morgan, Co-Chairmen  
State Capitol, Room 110, Juneau, Alaska 99801-1182  
(907) 465-3882

### AGENDA

February 8, 2000

1. Call meeting to order
  
2. Roll call      Rep. Dyson  
                     Rep. Kookesh  
                     Rep. Halcro  
                     Rep. Murkowski  
                     Rep. Joule  
                     Rep. Morgan  
                     Rep. Harris
  
3. Consideration of bills on agenda  
  
                     HB 304 – Clean and drinking water funds  
  
                     Testifiers:  
                     Dan Easton, director of facility construction & operations DEC  
                     Dianna Bennett, finance director, Anchorage WWU  
                     Larry Hancock, Cordova City manager  
                     Craig Tillery, AG's office Anchorage
  
4. Announcements or other business  
  
                     Next meeting: Thursday, Feb. 10-
  
5. Motion to adjourn

# FISCAL NOTE

Bill Version: HB 304

(H) Publish Date: 1/21/00

STATE OF ALASKA  
2000 LEGISLATIVE SESSION

Revision Date/Time (Note if correction) \_\_\_\_\_ Dept. Affected DEC  
 Title AK Bonding - AK Drinking Water Fund BRU Facility Construction and Operation  
 Component Facility Construction and Operation  
 Sponsor Rules Committee  
 Requester Governor Component No. 637

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
Travel	0.0	0.0	0.0	0.0	0.0	0.0
Contractual	0.0	0.0	0.0	0.0	0.0	0.0
Supplies	0.0	0.0	0.0	0.0	0.0	0.0
Equipment	0.0	0.0	0.0	0.0	0.0	0.0
Land & Structures	0.0	0.0	0.0	0.0	0.0	0.0
Grants & Claims	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>	<b>0.0</b>	<b>70.0</b>	<b>70.0</b>	<b>70.0</b>	<b>70.0</b>	<b>70.0</b>
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<b>CHANGE IN REVENUES ( )</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1003 GF Match	0.0	(1,551.4)	(1,551.4)	(1,551.4)	(1,551.4)	(1,551.4)
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1037 GF/Mental Health	0.0	0.0	0.0	0.0	0.0	0.0
1075 Clean Water Loan Fund	0.0	0.0	(395.5)	(455.3)	(455.3)	(455.3)
1100 Drinking Water Loan Fund	0.0	70.0	(380.4)	(448.4)	(448.4)	(448.4)
Drinking Water Fund Bond Recpts	0.0	1,551.4	1,551.4	1,551.4	1,551.4	1,551.4
Clean Water Administrative Fund	0.0	0.0	395.5	455.3	455.3	455.3
Drinking Water Administrative Fund	0.0	0.0	450.4	518.4	518.4	518.4
<b>TOTAL</b>	<b>0.0</b>	<b>70.0</b>	<b>70.0</b>	<b>70.0</b>	<b>70.0</b>	<b>70.0</b>

Estimate of any current year (FY2000) cost: 0.0

**POSITIONS**

Full-time	0	0	0	0	0	0
Part-time	0	0	0	0	0	0
Temporary	0	0	0	0	0	0

**ANALYSIS:** (Attach a separate page if necessary)

This legislation would provide for:

- 1) Using bond proceeds instead of GF Match to capitalize the Alaska Drinking Water Fund; and
- 2) Using fees deposited into (and appropriated from) two new administrative funds to pay the operating expenses of the Clean Water and Drinking Water loan programs. (Continued next page)

Prepared by: Dan Easton, Director Phone 465-5135  
 Division Facility Construction and Operation Date/Time 12/30/99 12:04 PM  
 Approved by: [Signature] Date 12-29-99  
 Agency Dept. of Environmental Conservation

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# FISCAL NOTE

STATE OF ALASKA  
2000 LEGISLATIVE SESSION

BILL NO. HB 304

Revision Date/Time (Note if correction)	Dept. Affected	DEC
Title <u>AK Bonding - AK Drinking Water Fund</u>	BRU	<u>Facility Construction and Operation</u>
	Component	<u>Facility Construction and Operation</u>
Sponsor <u>Rules Committee</u>		
Requester <u>Governor</u>	Component No.	<u>637</u>

**ANALYSIS:** (Continued)

The Drinking Water and Clean Water Loan Programs offer low-interest loans to municipalities for drinking water and sewerage facility construction projects. Loans are made from the Alaska Drinking Water Fund and the Alaska Clean Water Fund. Both funds are capitalized by annual federal grants that require a 20 percent state match. The Funds also earn investment and repayment interest.

To date, the state capitalization match requirement for the Drinking Water Fund has been met with GF Match. Federal law provides an alternative to general fund outlays for satisfying the state match requirement. States may use bond financing as match for federal funds to capitalize the Fund, and repay the bonds from interest earnings from the Fund. Statutes (AS 37.15.560) currently provide the bonding authority for the Clean Water Fund needed to take advantage of this funding mechanism. This legislation would provide the same bonding authority for the Drinking Water Fund.

Beginning in FY 2002 there will be sufficient interest in the Alaska Drinking Water Fund to meet the match requirement. Interest will be converted to bond proceeds and supplant the annual general fund appropriation. The effect will be to save approximately \$1.5 million in GF Match that year and each year thereafter. Bonding costs will be about \$70.0 per year.

This legislation would also provide authority to collect fees as a means of funding the operation of the two loan programs. Federal law allows states to set aside four percent of the federal capitalization grants to help pay for program administration. To date, annual operating expenditures of \$973.7 have been met with this Loan Fund set aside. With decreasing federal grant levels, the Loan Fund set-aside is also decreasing and is no longer sufficient to cover the costs of program administration. This legislation would create two new administrative funds into which loan fees would be deposited. Money could then be transferred from these administrative funds to the operating budget to finance program operating costs. This legislation would result in fully fee-supported loan programs by FY 2005.

Prepared by:	<u>Dan Easton, Director</u>	Phone	<u>465-5135</u>
Division	<u>Facility Construction and Operation</u>	Date/Time	<u>12/30/99 12:04 PM</u>
Agency	<u>Dept. of Environmental Conservation</u>		

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**RESOLUTION OF THE ALASKA MUNICIPAL LEAGUE  
AND ALASKA CONFERENCE OF MAYORS**

**RESOLUTION 00-01**

**A RESOLUTION URGING THE LEGISLATURE TO PASS THE  
GOVERNOR'S ADEC BONDING AND FEE AUTHORITY BILL**

**WHEREAS**, it is important that the State promote the health of its citizens and encourage the growth of infrastructure by assisting communities in developing safe water supplies and sanitary means of wastewater treatment and disposal; and

**WHEREAS**, the Alaska Clean Water Fund and the Alaska Drinking Water Fund are important financial alternatives for communities, having so far provided \$160,000,000 in subsidized, low-interest loans to communities for projects of this type; and

**WHEREAS**, Governor Knowles has introduced a bill to provide for the issuance of bonds as an alternative to using state general funds to capitalize the loan Funds; and

**WHEREAS**, the alternative financing method provided by the bill will allow the State to continue securing federal grants to grow the Funds and the amounts available for loans; and

**WHEREAS**, the alternative financing method provided by the bill will save approximately \$1.5 million in state general fund expenditures annually; and

**WHEREAS**, the bill also reserves a portion of the finance charges paid on the loans to pay the costs of administering the loan programs to offset decreasing federal grant funding available; and

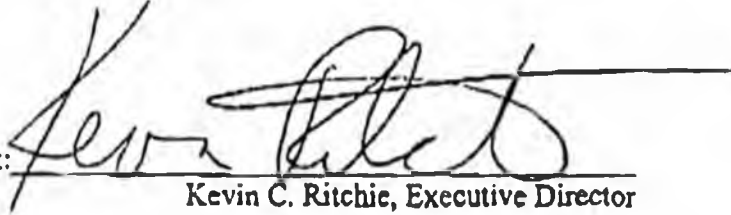
**WHEREAS**, reserving a portion of the loan finance charges for program administration will not increase the cost of the loans to the communities of the State nor increase the need for any State general fund dollars;

**NOW, THEREFORE, BE IT RESOLVED** by the Alaska Municipal League and Alaska Conference of Mayors that the Alaska State Legislature is urged to adopt the ADEC Bonding and Fee Authority legislation during the 2000 legislative session.

Adopted on January 27, 2000.

Post-It® Fax Note	7671	Date	1-31	# of Pages	1
To	Mace	From	[Signature]		
Co./Dept.	ADEC	Co.	AML		
Phone #		Phone #			
Fax #	465-5362	Fax #			

Attest:



Kevin C. Ritchie, Executive Director

# FISCAL NOTE

Bill Version: HB 304

(H) Publish Date: 1/21/00

STATE OF ALASKA  
1999 LEGISLATIVE SESSION

Revision Date/Time (Note if correction) \_\_\_\_\_ Dept. Affected Revenue  
 Title Drinking Water Fund Bonds BRU Revenue Operations  
 Component Treasury Division  
 Sponsor Rules Committee  
 Requester Governor Component Serial No. 121

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of current year (FY00) cost: 0.0

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

The Alaska Drinking Water Fund will pay all costs of issuance, administration, and debt service for bonds issued. Bond proceeds will be deposited in the Drinking Water Fund to make loans to municipalities. There is no other fiscal impact on state funds.

Prepared by Deven Mitchell, Debt Manager *Deven Mitchell*  
 Division Treasury Division  
 Approved by Wilson L. Condon *Wilson L. Condon*  
 Commissioner  
 Agency Department of Revenue

Phone 465-3750  
 Date/Time December 22, 1999  
 Date December 22, 1999

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HB 304

TONY KNOWLES

STATE OF ALASKA

JUNEAU

January 20, 2000

The Honorable Brian Porter  
Speaker of the House  
Alaska State Legislature  
State Capitol  
Juneau, AK 99801-1182

Dear Speaker Porter:

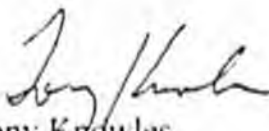
Low-interest state loans from the Alaska Drinking Water Fund and the Alaska Clean Water Fund offer municipalities the means to build drinking water and sewage facility projects. This bill I transmit today will allow the state to use revenue bonds to capitalize the Alaska Drinking Water Fund.

Both the Drinking Water and Clean Water funds are capitalized by annual federal grants that require a 20 percent state match. Bond revenues will help provide the state match for federal drinking water project money. But the state is only authorized to sell bonds for the Clean Water Fund. It makes sense to extend this leveraging power to the Drinking Water Fund.

As with existing law, the bill requires the state bond committee to conduct its activities in the best interests of the state, in a manner that will accomplish the most advantageous sale of the bonds. The bill also provides for a new, self-supporting structure to pay for the costs of operating these important loan programs.

I urge your prompt consideration and passage of this bill.

Sincerely,

  
Tony Knowles  
Governor