

**НВ**

**304**

**HFIN**

**FILE**

A M E N D M E N T

OFFERED IN THE SENATE

TO: CSHB 304(FIN)

1 Page 2, line 18, following "\$150,000,000":

2 Insert "for each program"

3 Page 7, line 26, following "provides":

4 Insert "waste"

5 Page 9, line 8, following "assistance"

6 Insert "for drinking water system projects, including projects to plan, design, build,  
7 construct, or rehabilitate a public drinking water collection, storage, treatment, or distribution  
8 system,"

9 Page 9, lines 9 - 11:

10 Delete all material and insert:

11 "(A) municipalities;"

(21)

# HOUSE COMMITTEE REPORT

Date Referred to Committee: February 28, 2000

FURTHER REFERRALS:

Date of Committee Action: 3/17/00

The FINANCE 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 CS HB 304 (FIN)  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) DEC 1-21-00  
 fiscal note(s) \_\_\_\_\_  fiscal note(s)

zero fiscal note(s) \_\_\_\_\_  zero fiscal note(s) REV 1-21-00

SIGNING WITH RECOMMENDATIONS	DP	DNP	NR	AM
<u>Sen Therriault</u> Therriault	X			
<u>Sen Bunde</u> Bunde				
<u>Chl Guste</u> Gusterman			X	
<u>Sen Davis</u> DAVIES			X	
<u>Sen Cassendorf</u> Cassendorf			X	
<u>Sen Davis</u> DAVIS	X			
<u>W.K. Williams</u> William			X	
<u>Phil Phillips</u> Phillips				
<u>R. Foster</u> Foster	X			

CHAIR'S SIGNATURE Sen Therriault

# 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

Division Facility Construction and Operation

Approved by: [Signature]  
Agency Dept. of Environmental Conservation

Phone 465-5135

Date/Time 12/30/99 12:04 PM

Date 12-29-99

# 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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# 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 (Specity 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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(11)

# HOUSE COMMITTEE REPORT

Date Referred to Committee: February 28, 2000

FURTHER REFERRALS:

Date of Committee Action: 3/17/00

The FINANCE 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 C.S HB 304 (Fin)  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) \_\_\_\_\_

fiscal note(s) DEC 1-21-00

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

zero fiscal note(s) REV 1-21-00

SIGNING WITH RECOMMENDATIONS	DP	DNP	NR	AM
<u>Gene Therriault</u> Therriault	X			
<u>Carl Bunde</u> Bunde				
<u>John Guster</u> Gusterman			X	
<u>W. Dan</u> DAVIES			X	
<u>Ben Cassendorf</u> Cassendorf			X	
<u>Fernand Davis</u> DAVIS	X			
<u>William Williams</u> William			X	
<u>Gail Phillips</u> Phillips				
<u>Randy Foster</u> Foster	X			

CHAIR'S SIGNATURE

Gene Therriault

# 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)**

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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
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<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	C	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]  
 Agency Dept. of Environmental Conservation

Date 12-29-99

# FISCAL NOTE

STATE OF ALASKA  
2000 LEGISLATIVE SESSION

BILL NO. HB 304

Revision Date/Time (Note if correction)		Dept. Affected	<u>DEC</u>
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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**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>						
<b>CHANGE IN REVENUES ( )</b>						

**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  
 Division Treasury Division  
 Approved by Wilson L. Condon  
 Commissioner Department of Revenue  
 Agency

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

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Cook  
3/17/00

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*Adopted  
3/17/00*

**CS FOR HOUSE BILL NO. 304(FIN)**

**IN THE LEGISLATURE OF THE STATE OF ALASKA**

**TWENTY-FIRST LEGISLATURE - SECOND SESSION**

**BY THE HOUSE FINANCE COMMITTEE**

**Offered:  
Referred:**

**Sponsor(s): HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR**

**A BILL**

**FOR AN ACT ENTITLED**

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

8 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

9 \* Section 1. AS 37.15.560(a) is amended to read:

10 (a) For purposes of providing part of the money to be used to provide financial  
11 assistance to municipalities and other qualified entities under AS 46.03.032 and  
12 46.03.036 [FOR THE PURPOSES STATED IN AS 46.03.032(d)], including the costs  
13 of bond issuance and administration, the issuance and sale of revenue bonds of the

1 state is authorized subject to (b) of this section. The bonds are to be issued by the  
2 state bond committee, as provided in AS 37.15.560 - 37.15.605, as part of the Alaska  
3 clean water fund and the Alaska drinking water fund revolving loan fund programs  
4 [PROGRAM] (AS 46.03.032 and 46.03.036), [A] public enterprises [ENTERPRISE]  
5 of the state. The net proceeds of the sale of the bonds [,] remaining after any payment  
6 of costs of issuance and administration [,] shall be paid into the Alaska clean water  
7 fund or the Alaska drinking water fund, as appropriate. Accrued interest paid on  
8 the bonds shall be paid into the Alaska clean water fund or the Alaska drinking  
9 water fund for transfer to the Alaska clean water fund revenue bond redemption fund  
10 or the Alaska drinking water fund revenue bond redemption fund (AS 37.15.565),  
11 as appropriate.

12 \* Sec. 2. AS 37.15.560(b) is amended to read:

13 (b) The state bond committee may not issue more than \$15,000,000 in revenue  
14 bonds under AS 37.15.560 - 37.15.605 during a fiscal year for each revolving loan  
15 fund program referred to in (a) of this section, excluding refunding bonds. The  
16 total unpaid principal amount of revenue bonds, including refunding bonds, but  
17 excluding refunded bonds, issued under AS 37.15.560 - 37.15.605 [,] may not exceed  
18 \$150,000,000.

19 \* Sec. 3. AS 37.15.565 is amended to read:

20 Sec. 37.15.565. Bond redemption funds [FUND]. (a) There are [IS]  
21 established [A] special funds [FUND] of the state, known as the "Alaska clean water  
22 fund revenue bond redemption fund [,]" and the "Alaska drinking water fund  
23 revenue bond redemption fund." which are [IS A] trust funds [FUND] for paying  
24 and securing the payment of the principal of and interest and redemption premium, if  
25 any, on the bonds and which shall be at all times completely segregated and set apart  
26 from all other funds of the state. The committee, on behalf of the state, may obligate  
27 and bind the state to set aside and pay into the bond redemption funds [FUND], on  
28 a monthly or other periodic basis, any part or parts of, or all of, or a fixed proportion  
29 of, or a fixed amount of the money in the Alaska clean water fund (AS 46.03.032) or  
30 the Alaska drinking water fund (AS 46.03.036) sufficient to pay the principal of and  
31 interest and redemption premium, if any, on the bonds and, if it considers it necessary,

1 to set aside and maintain reserves for this purpose. The bond redemption funds  
2 [FUND] shall be drawn upon only for the purpose of paying the principal of and  
3 interest and redemption premium, if any, on the bonds, together with related trustee  
4 fees, if any.

5 (b) Money in the bond redemption funds [FUND] may be invested in the same  
6 manner and on the same conditions as permitted for investment of money belonging  
7 to the state or held in the treasury under AS 37.10.070; however, the committee may  
8 agree with the bondholders to further limit these investments. Earnings on investments  
9 must be retained in the bond redemption funds [FUND].

10 (c) Separate accounts may be created in the bond redemption funds [FUND]  
11 for the purposes of paying and securing the bonds. The accounts may be combined for  
12 purposes of investment and for financial support to achieve the purposes of  
13 AS 37.15.570(c).

14 \* Sec. 4. AS 37.15.570(c) is amended to read:

15 (c) The committee may pledge to the payment of the principal of and interest  
16 on bonds issued by the committee part or all of the legally available money or other  
17 assets on hand in the Alaska clean water fund (AS 46.03.032) or the Alaska drinking  
18 water fund (AS 46.03.036); part or all of the revenue of the Alaska clean water fund  
19 or the Alaska drinking water fund, including federal capitalization grants, the  
20 proceeds of loan repayments, and interest on money in the funds [FUND]; the  
21 proceeds of the sale of bonds; and money on hand in the bond redemption funds  
22 [FUND]. Revenue of the Alaska clean water fund or the Alaska drinking water fund,  
23 if so pledged, must be paid into the Alaska clean water fund or the Alaska drinking  
24 water fund, as appropriate. The committee may provide for the issuance of  
25 additional bonds, secured by a pledge of such money and revenue, ranking junior to,  
26 senior to, or on a parity with, outstanding bonds, upon conditions prescribed in the  
27 bond resolution. A pledge of loan repayments securing bonds may be made applicable  
28 to specific loans from the Alaska clean water fund or the Alaska drinking water  
29 fund, or, on a pooled basis, to all loan repayments received.

30 \* Sec. 5. AS 37.15.570(d) is amended to read:

31 (d) If the committee finds it reasonably necessary, the committee may select

1 a trustee or trustees for the holders of the bonds, or any series of them, for the  
2 safeguarding and disbursement of any of the money in the bond redemption funds  
3 [FUND] created by AS 37.15.565, or for duties with respect to the enforcement,  
4 authentication, delivery, payment, and registration of the bonds as the committee may  
5 determine. The committee shall fix the rights, duties, powers, and obligations of the  
6 trustee or trustees.

7 \* Sec. 6. AS 37.15.570(e) is amended to read:

8 (e) In its determination of all matters and questions relating to the issuance and  
9 sale of the bonds and the fixing of their maturities, terms, conditions, and covenants  
10 as provided in (a) - (d) of this section, the decisions of the committee shall be those  
11 that are reasonably necessary for the best interests of the state and its inhabitants and  
12 that will accomplish the most advantageous sale of the bonds, with due regard,  
13 however, for the continued funding under AS 46.03.032 and AS 46.03.306 of the  
14 categories of projects identified in AS 46.03.032(d) and 46.03.036(b). Decisions of  
15 the committee, as expressed in a bond resolution, are final and are conclusively  
16 considered to comply with the requirements of AS 37.15.560 - 37.15.605, [AND]  
17 AS 46.03.032, and 46.03.036.

18 \* Sec. 7. AS 37.15.570(f) is amended to read:

19 (f) A bond resolution may provide that the bonds issued must contain a recital  
20 that they are issued under AS 37.15.560 - 37.15.605 and under AS 46.03.032 or  
21 46.03.036, as appropriate, and a bond containing this recital is conclusively  
22 considered to be valid and to have been issued in conformity with AS 37.15.560 -  
23 37.15.605 and with AS 46.03.032 or 46.03.036, as appropriate.

24 \* Sec. 8. AS 37.15.573 is amended to read:

25 **Sec. 37.15.573. Bond resolution.** The committee shall authorize the issuance  
26 of bonds by adopting a resolution and shall prepare all other documents and  
27 proceedings necessary for the issuance, sale, and delivery of the bonds or any part or  
28 series of them. The bond resolution must fix the principal amount, denominations,  
29 date, maturities, manner of sale, place or places of payment, rights of redemption, if  
30 any, terms, form, conditions, and covenants of the bonds or each series of them. A  
31 bond resolution may state terms, conditions, amounts, and other limitations on loans

1 to be made from the Alaska clean water fund (AS 46.03.032) or the Alaska drinking  
2 water fund (AS 46.03.036), as appropriate, from the relevant bond proceeds.

3 \* Sec. 9. AS 37.15.575 is amended to read:

4 **Sec. 37.15.575. State aid intercept.** If a municipality is in [THE] default on  
5 the payment of principal or interest on a loan from the Alaska clean water fund  
6 (AS 46.03.032) or the Alaska drinking water fund (AS 46.03.036), the committee  
7 may provide written notice of default to any state agency that is the custodian of  
8 money that is payable to the municipality. If the committee determines to provide  
9 notice, a separate written notice shall be given in each instance of default.  
10 Notwithstanding any other provision of law, at any time after receipt of written notice  
11 of default, the agency head shall withhold payment of the money from the  
12 municipality. The agency head shall pay over the withheld money to the committee  
13 for deposit in the Alaska clean water fund or the Alaska drinking water fund, as  
14 appropriate, for the purpose of paying or securing the principal and interest on the  
15 loan.

16 \* Sec. 10. AS 37.15.580 is amended to read:

17 **Sec. 37.15.580. Pledge of the state.** The state pledges to and agrees with the  
18 holders of bonds issued by the committee under AS 37.15.560 - 37.15.605 and under  
19 AS 46.03.032 or 46.03.036, as appropriate, that the state will not limit or alter the  
20 rights and powers vested in the committee by AS 37.15.560 - 37.15.605 and by  
21 AS 46.03.032 or 46.03.036, as appropriate, to fulfill the terms of any contract made  
22 by the committee with the holders, or in any way impair the rights and remedies of the  
23 holders until the principal amount of the bonds, together with the interest on them with  
24 interest on unpaid installments of interest, are fully met and discharged. The  
25 committee may include this pledge and agreement of the state in a contract with the  
26 holders.

27 \* Sec. 11. AS 37.15.583(a) is amended to read:

28 (a) The owner or owners of not less than 10 percent of the aggregate principal  
29 amount of any series or issue of bonds or the trustee for the owners of the bonds or  
30 any series of them may, by appropriate proceedings in state court, require and compel  
31 the transfer, setting aside, and payment of money and the enforcement of all of the

1 terms, conditions, and covenants as required and provided in AS 37.15.560 -  
2 37.15.605, AS 46.03.032 or 46.03.036, as appropriate, and the bond resolution.

3 \* **Sec. 12.** AS 37.15.585 is amended to read:

4 **Sec. 37.15.585. Amounts required for payments.** The committee shall,  
5 before June 30 of each year or from time to time within the year, as appropriate,  
6 commencing with the year in which the bonds are issued, certify to the commissioners  
7 of revenue and environmental conservation the amounts required in the current fiscal  
8 year and the next ensuing fiscal year by the bond resolution or resolutions to be paid  
9 out of the Alaska clean water fund or the Alaska drinking water fund into the  
10 appropriate bond redemption fund and to be paid into and maintained in any reserve  
11 fund or account or other fund or account created by the bond resolution or resolutions,  
12 and shall also certify to the commissioners the last date or dates upon which payments  
13 may be made.

14 \* **Sec. 13.** AS 37.15.587 is amended to read:

15 **Sec. 37.15.587. Purposes and sufficiency of revenue.** The proceeds of bonds  
16 may be used for the purposes described in AS 46.03.032 or 46.03.036, as appropriate  
17 [AS 46.03.032(d)]. Bonds may not be issued unless the committee first finds that  
18 revenue to be derived from repayment of loans from the Alaska clean water fund or  
19 the Alaska drinking water fund, as appropriate, will be sufficient, together with  
20 other available money, to comply with all covenants of the bond resolutions.

21 \* **Sec. 14.** AS 37.15.590(b) is amended to read:

22 (b) The issuance of refunding bonds need not be authorized by the voters of  
23 the state or by an act of the legislature. The committee shall adopt the resolution or  
24 resolutions and prepare all other documents and proceedings necessary for the  
25 issuance, exchange or sale, and delivery of the refunding bonds. All provisions of  
26 AS 37.15.560 - 37.15.605 and of AS 46.03.032 and 46.03.036, as appropriate,  
27 applicable to revenue bonds are applicable to the refunding bonds and to the issuance,  
28 sale, or exchange of them, except as otherwise provided in this section.

29 \* **Sec. 15.** AS 37.15.605(1) is amended to read:

30 (1) "bond redemption funds [FUND]" means the Alaska clean water  
31 fund revenue bond redemption fund and the Alaska drinking water fund revenue

1 bond redemption fund established in AS 37.15.565, as applicable;

2 \* Sec. 16. AS 37.15.605(3) is amended to read:

3 (3) "bonds" means the Alaska clean water fund revenue bonds or the  
4 Alaska drinking water fund revenue funds authorized in AS 37.15.560 - 37.15.605,  
5 as applicable;

6 \* Sec. 17. AS 37.15.605(7) is amended to read:

7 (7) "costs of issuance and administration" means all costs associated  
8 with issuance and administration of Alaska clean water fund revenue bonds or the  
9 Alaska drinking water fund revenue bonds, as applicable, and refunding bonds,  
10 including costs of bond printing, official statements, financial advisors, travel costs,  
11 rating agencies, bond insurance, letters and lines of credit for credit enhancement,  
12 underwriters, legal services, paying agents, bonds registrars, bond and escrow trustees,  
13 arbitrage rebate, and all other costs, including administrative costs, both direct and  
14 indirect.

15 \* Sec. 18. AS 46.03.032(p)(1) is amended to read:

16 (1) "other qualified entity" means an entity that is not a municipality  
17 and that is eligible for assistance under [INTERMUNICIPAL OR INTERSTATE  
18 AGENCY AS THOSE TERMS ARE USED IN] 33 U.S.C. 1383 [, AND MAY  
19 INCLUDE AN AUTHORITY, CORPORATION, INSTRUMENTALITY,  
20 ENTERPRISE, OR OTHER ENTITY FORMED THROUGH AN AGREEMENT  
21 BETWEEN A MUNICIPALITY AND ONE OR MORE OTHER GOVERNMENTAL  
22 ENTITIES UNDER AS 29.35.010(13) OR UNDER ART. X, SEC. 13,  
23 CONSTITUTION OF THE STATE OF ALASKA, OR BETWEEN A  
24 MUNICIPALITY AND A REGIONAL HOUSING AUTHORITY UNDER  
25 AS 18.55.996(b)];

26 \* Sec. 19. AS 46.03.034 is repealed and reenacted to read:

27 **Sec. 46.03.034. Alaska clean water administrative fund.** (a) The Alaska  
28 clean water administrative fund is established as a separate fund that is distinct from  
29 other money or funds in the treasury. The fund is composed of two accounts, the

- 30 (1) Alaska clean water administrative operating account; and  
31 (2) Alaska clean water administrative income account.

1 (b) The legislature may appropriate to the Alaska clean water administrative  
2 operating account the annual balance of the Alaska clean water administrative income  
3 account.

4 (c) The department shall administer the Alaska clean water administrative  
5 fund.

6 (d) The Alaska clean water administrative operating account may be used to  
7 pay for the department's operational and administrative costs necessary to manage the  
8 Alaska clean water fund and the Alaska clean water administrative fund and for such  
9 other purposes permitted by federal law.

10 (e) Money received in payment of fees charged by the department under the  
11 authority of AS 46.03.035 and earnings on the Alaska clean water administrative fund  
12 shall be deposited in the Alaska clean water administrative income account.

13 \* Sec. 20. AS 46.03 is amended by adding a new section to read:

14 **Sec. 46.03.035. Fees charged for loans made from the Alaska clean water**  
15 **fund.** The department may charge and collect reasonable fees in connection with  
16 making and servicing loans made by the department under the authority of  
17 AS 46.03.032. The department shall by regulation specify the rates and amounts of  
18 the fees.

19 \* Sec. 21. AS 46.03.036 is repealed and reenacted to read:

20 **Sec. 46.03.036. Alaska drinking water fund.** (a) The Alaska drinking water  
21 fund is established as a separate fund that is distinct from other money or funds in the  
22 treasury. The fund shall be administered by the department. The Alaska drinking  
23 water fund consists of the following items, all of which shall be deposited into the  
24 fund upon receipt:

25 (1) the proceeds and accrued interest received from the sale of revenue  
26 bonds issued under AS 37.15.560 - 37.15.605 and secured by the Alaska drinking  
27 water fund;

28 (2) money appropriated by the legislature, including federal  
29 capitalization grants;

30 (3) loan repayments; and

31 (4) interest received from loan repayments and interest received from

1 investment of money in the Alaska drinking water fund.

2 (b) Except as otherwise limited by federal law, the department may use money  
3 in the Alaska drinking water fund to

4 (1) provide financial assistance to

5 (A) municipalities for municipal drinking water system projects,  
6 including projects to plan, design, build, construct, or rehabilitate a public  
7 drinking water collection, storage, treatment, or distribution system;

8 (B) organizations that are not exempted from regulation under  
9 AS 42.05.711(d), that provide water service under a certificate of convenience  
10 and necessity from the former Alaska Public Utilities Commission or the  
11 Regulatory Commission of Alaska, and that are economically regulated by the  
12 Regulatory Commission of Alaska;

13 (2) earn interest on the amounts deposited in the fund;

14 (3) pay the costs of administering the fund and conducting activities  
15 under this section and AS 37.15.560 - 37.15.605, including the costs of issuance and  
16 administration as defined in AS 37.15.605;

17 (4) pay and secure the payment of the principal of and interest on  
18 revenue bonds issued by the state and to pay the costs of issuance and administration  
19 of the bonds, so long as the proceeds of the bond sale are deposited in the Alaska  
20 drinking water fund;

21 (5) pay

22 (A) into the bond redemption fund (AS 37.15.565), and into any  
23 other bond redemption fund or account created by a relevant bond resolution,  
24 the amount certified by the state bond committee under AS 37.15.585; and

25 (B) the costs of the state bond committee in conducting  
26 activities under this section and AS 37.15.560 - 37.15.605, including the costs  
27 of issuance and administration as defined in AS 37.15.605.

28 (c) Repayment of loans shall be secured in a manner that the department  
29 determines is feasible to ensure prompt repayment under a loan agreement entered into  
30 with the borrower.

31 (d) Separate accounts may be created in the Alaska drinking water fund. The

1 accounts may be combined for purposes of investment.

2 (e) The department may adopt regulations necessary to implement the Alaska  
3 drinking water fund in a manner consistent with federal law. The regulations adopted  
4 by the department under (h) of this section may establish different loan terms, charges,  
5 rates, and standards for different classes of borrowers to accommodate the different  
6 levels of risk and costs that the different classes may present.

7 (f) An organization that qualifies for financial assistance under (b)(1)(B) of this  
8 section or a municipality wishing to borrow money from the Alaska drinking water  
9 fund shall demonstrate to the satisfaction of the department that it

10 (1) has sufficient legal authority to incur the debt for which it is  
11 applying; and

12 (2) will establish and maintain a dedicated source of revenue or other  
13 acceptable revenue source for repayment of the loan and sufficient reserves for the  
14 loan as may be necessary.

15 (g) Allocation of Alaska drinking water fund loans shall be made in  
16 accordance with a priority list developed by the department, using criteria specified in  
17 regulations adopted by the department. A loan may not be made to an organization  
18 that is not a municipality to refinance debt of that organization.

19 (h) Before making a loan from the Alaska drinking water fund, the department  
20 shall, by regulation, specify

21 (1) standards for the eligibility of borrowers and the type of projects  
22 to be financed with loans;

23 (2) loan term and interest rate policies for loans made from the fund;

24 (3) standards regarding the technical and economic viability and  
25 revenue of self-sufficiency of eligible projects;

26 (4) collateral or other security required for loans;

27 (5) terms of loans; and

28 (6) other relevant standards or procedures.

29 (i) Except as necessary to comply with the covenants of a bond resolution  
30 under AS 37.15.573, a loan made by the department shall be made according to the  
31 standards and procedures established by regulations under this section. A loan made

1 from the Alaska drinking water fund may be subject to the state aid intercept  
2 provisions of AS 37.15.575.

3 (j) The department shall also prepare reports and notices, including notices of  
4 default, required by the state bond committee in conjunction with bonds issued under  
5 AS 37.15.560 - 37.15.605.

6 (k) Regulations adopted by the department under this section that would affect  
7 issuance or repayment of revenue bonds under AS 37.15.560 - 37.15.605 may not be  
8 inconsistent with those statutes or with regulations adopted by the state bond  
9 committee under those statutes. To the extent that regulations adopted by the  
10 department are inconsistent with AS 37.15.560 - 37.15.605, with regulations adopted  
11 by the state bond committee under those statutes, or with the covenants of a bond  
12 resolution adopted under AS 37.15.573, the provisions of AS 37.15.560 - 37.15.605,  
13 the regulations adopted under those statutes, and the covenants of the bond resolution  
14 govern.

15 \* **Sec. 22.** AS 46.03.038 is repealed and reenacted to read:

16 **Sec. 46.03.038. Alaska drinking water administrative fund.** (a) The Alaska  
17 drinking water administrative fund is established as a separate fund that is distinct from  
18 other money or funds in the state treasury. The fund is composed of two accounts, the

19 (1) Alaska drinking water administrative operating account; and

20 (2) Alaska drinking water administrative income account.

21 (b) The legislature may appropriate to the Alaska drinking water administrative  
22 operating account the annual balance of the Alaska drinking water administrative  
23 income account.

24 (c) The department shall administer the Alaska drinking water administrative  
25 fund.

26 (d) The Alaska drinking water administrative operating account may be used  
27 to pay for the department's operational and administrative costs necessary to manage  
28 the Alaska drinking water fund and the Alaska drinking water administrative fund and  
29 for such other purposes permitted by federal law.

30 (e) Money received in payment of fees charged by the department under the  
31 authority of AS 46.03.039 and earnings on the Alaska drinking water administrative

1 fund shall be deposited in the Alaska drinking water administrative income account.

2 \* Sec. 23. AS 46.03 is amended by adding a new section to read:

3 **Sec. 46.03.039. Fees charged for loans made from the Alaska drinking**  
4 **water fund.** The department may charge and collect reasonable fees in connection  
5 with making and servicing loans made by the department under the authority of  
6 AS 46.03.036. The department shall by regulation specify the rates and amounts of  
7 such fees.

8 \* Sec. 24. The uncodified law of the State of Alaska is amended by adding a new section  
9 to read:

10 **INDIRECT COURT RULE AMENDMENT.** The provisions of sec. 11 of this Act  
11 have the effect of changing Rule 3, Alaska Rules of Civil Procedure, by limiting to the  
12 Superior Court for the State of Alaska, First Judicial District at Juneau the venue district in  
13 which a proceeding under AS 37.15.583(a) may be commenced and conducted.

14 \* Sec. 25. The uncodified law of the State of Alaska is amended by adding a new section  
15 to read:

16 **TEMPORARY LIMITATION ON LOANS.** Until July 1, 2002, loans may be made  
17 from the Alaska drinking water fund only to municipalities, notwithstanding the provision  
18 authorizing financial assistance to certain other organizations in AS 46.03.036(b)(1)(B), as  
19 repealed and reenacted in sec. 21 of this Act.

20 \* Sec. 26. The uncodified law of the State of Alaska is amended by adding a new section  
21 to read:

22 **CONDITIONAL EFFECT.** Section 11 of this Act takes effect only if sec. 24 of this  
23 Act receives the two-thirds majority vote of each house required by art. IV, sec. 15,  
24 Constitution of the State of Alaska.

25 \* Sec. 27. The uncodified law of the State of Alaska is amended by adding a new section  
26 to read:

27 **TRANSITION: REGULATIONS.** The respective state agencies may proceed to adopt  
28 any regulations necessary to implement their duties under this Act. The regulations take effect  
29 under AS 44.62 (Administrative Procedure Act), but not before the effective date of secs. 1 -  
30 23 and 25 of this Act.

31 \* Sec. 28. Section 27 of this Act takes effect immediately under AS 01.10.070(c).

# STATE OF ALASKA

DEPARTMENT OF COMMUNITY AND  
ECONOMIC DEVELOPMENT

REGULATORY COMMISSION OF ALASKA

March 7, 2000

**TONY KNOWLES, GOVERNOR**

1016 WEST SIXTH AVENUE, SUITE 400  
ANCHORAGE, ALASKA 99501-1963  
PHONE: (907) 276-6222  
FAX: (907) 276-0160  
TTY: (907) 276-4533

The Honorable Gene Therriault  
Alaska State Legislature  
State Capitol (MS 3100)  
Juneau, AK 99801-1182

Re: HB 304 – Request for Information

Dear Representative Therriault:

This is in response to your request for information regarding privately owned economically regulated water utilities. For economically exempt utilities, the Commission does not perform its traditional rate-based/rate-of-return regulatory review of utility operations. Therefore, the Commission is unable to assess any potential impact on rates. An economically unregulated utility would determine whether to pass any reduced debt service costs on to its ratepayers, without benefit of review by the Commission.

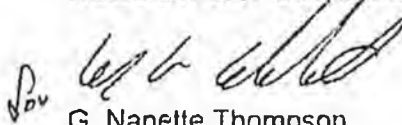
For those investor-owned (private) utilities which are subject to economic regulation by the RCA, any costs, regardless of the source of financing, are subject to Commission review and must be necessary, reasonable, prudently incurred, and of benefit to the ratepayers. Generally, all economically regulated expenses are reviewed according to these criteria. Accordingly, any reduction in debt-service expense associated with allowed costs would generally be of benefit to the ratepayers of the utility. The ratepayers would benefit through rates lower than would otherwise be required to allow the utility to recover its debt-service expense.

Attached is a list of privately owned and economically regulated water and sewer companies in Alaska. Please note that this list does not contain those entities that have not yet completed the certification process.

If you have further questions or need additional information, please contact me at (907) 276-6222.

Sincerely,

REGULATORY COMMISSION OF ALASKA



G. Nanette Thompson  
Chair

**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

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.

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.



**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 <sup>®</sup> Fax Note	7671	Date	1-31	# of pages	1
To	M... ..	From	M... ..		
Co/Dept.	ADEC	Co.	AML		
Phone #		Phone #			
Fax #	465-5322	Fax #			

Attest:

Kevin C. Ritchie, Executive Director

TONY KNOWLES  
GOVERNOR  
*governor@alaska.gov*

STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

H-13-0  
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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



## CITY OF PETERSBURG

P.O. BOX 329 • PETERSBURG, ALASKA 99833

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February 22, 2000

Representative Eldon Mulder, Co-Chair  
Representative Gene Therriault, Co-Chair  
House Finance Committee  
State Capitol  
Juneau, Alaska 99801

Dear Representatives Mulder and Therriault:

Please accept this letter of support for House Bill 304, Clean Water Fund/Drinking Water Fund. The citizens of Petersburg have benefited greatly from this program as it has provided clean drinking water and wastewater disposal at an affordable cost. Our state has so many small communities that need help providing safe drinking water and safe wastewater disposal. Only with programs such as this, can they be provided basic needs.

On behalf of the citizens of Petersburg and all the other small communities in the State, please support House Bill 304.

Sincerely,

Ted Smith, Mayor

## 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.



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

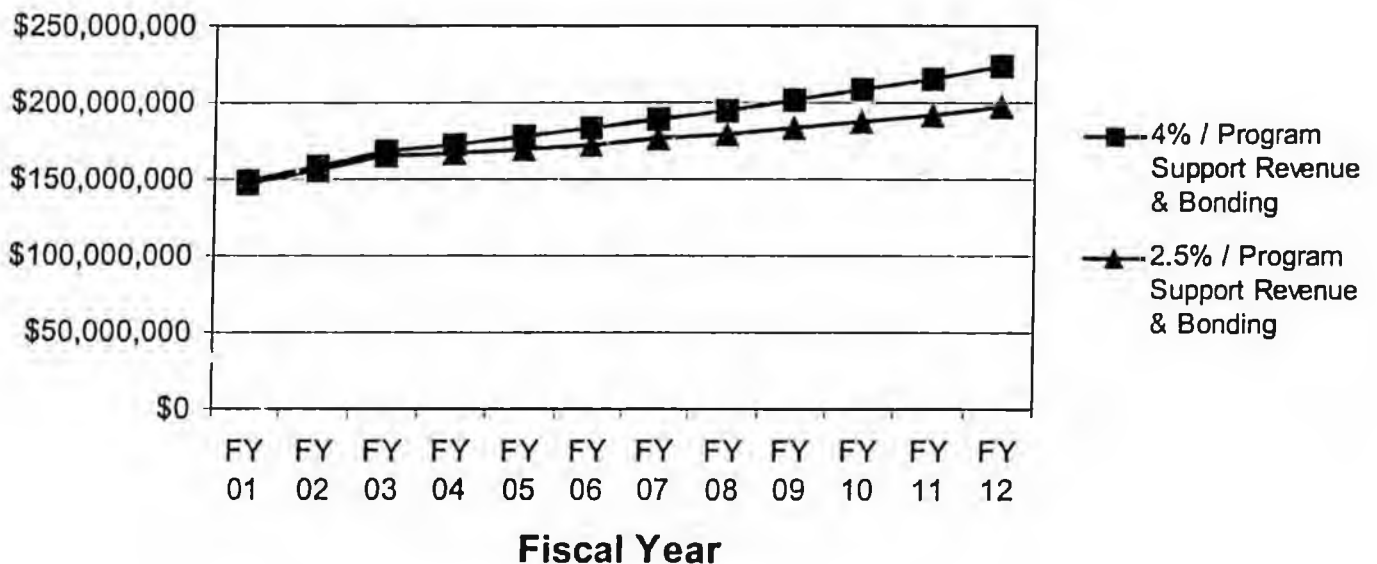
with an existing loan, one year to convert to a new finance rate. The tables below illustrate the differences between the existing rates and the proposed rates in the amendments.

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		

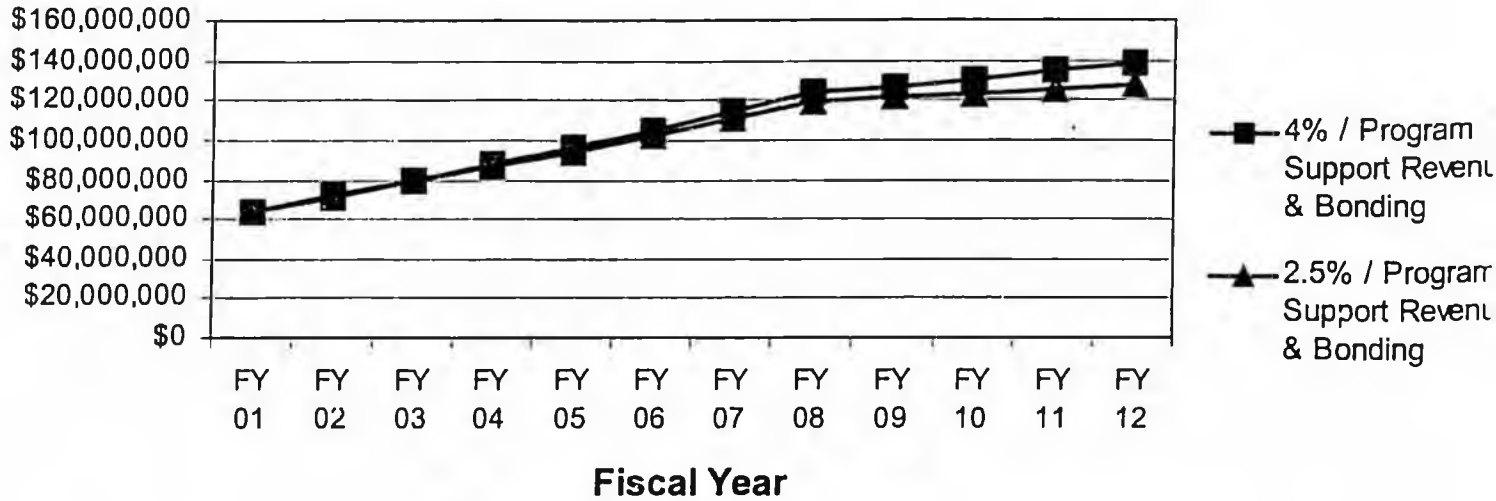
### How were these rates established?

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



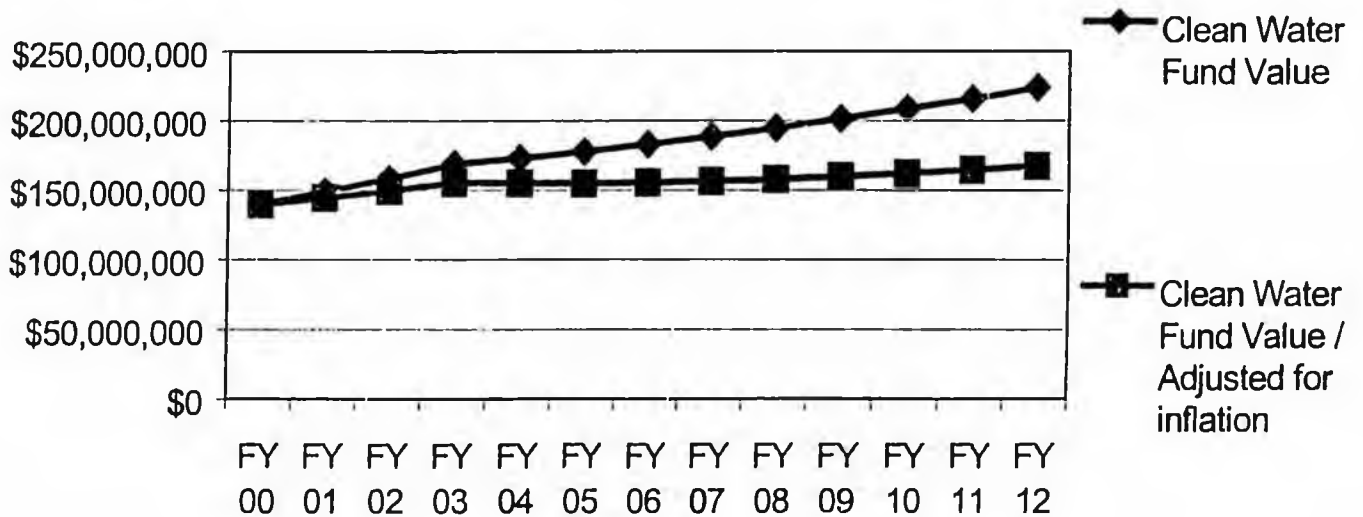
## Drinking Water Projected Growth



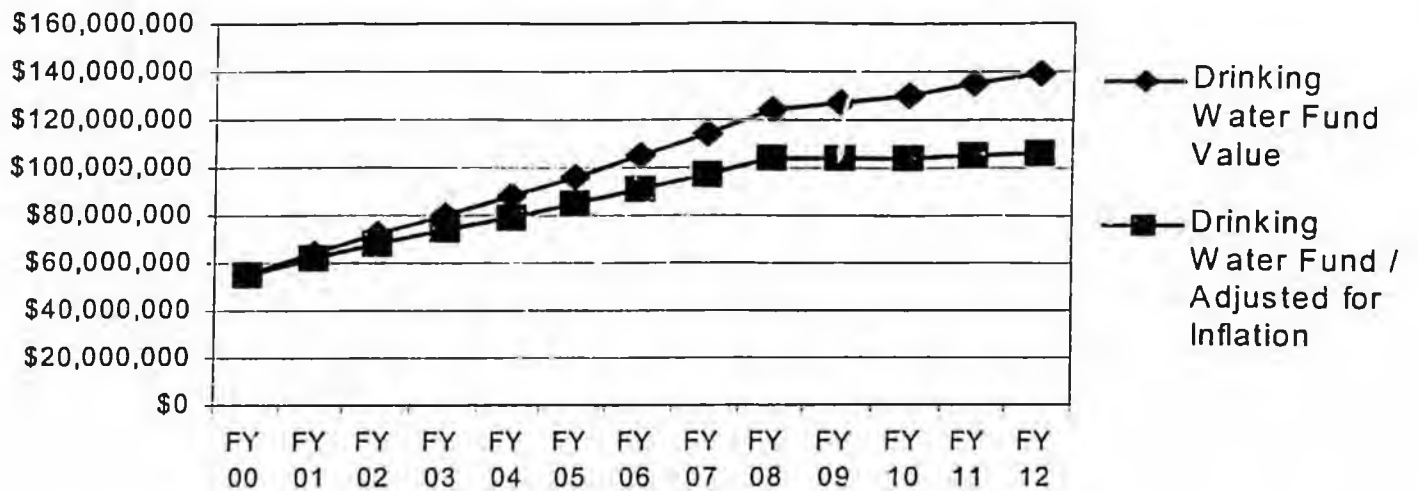
**How would the new rates affect the real or inflation-adjusted growth of the Funds?**

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.



**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.

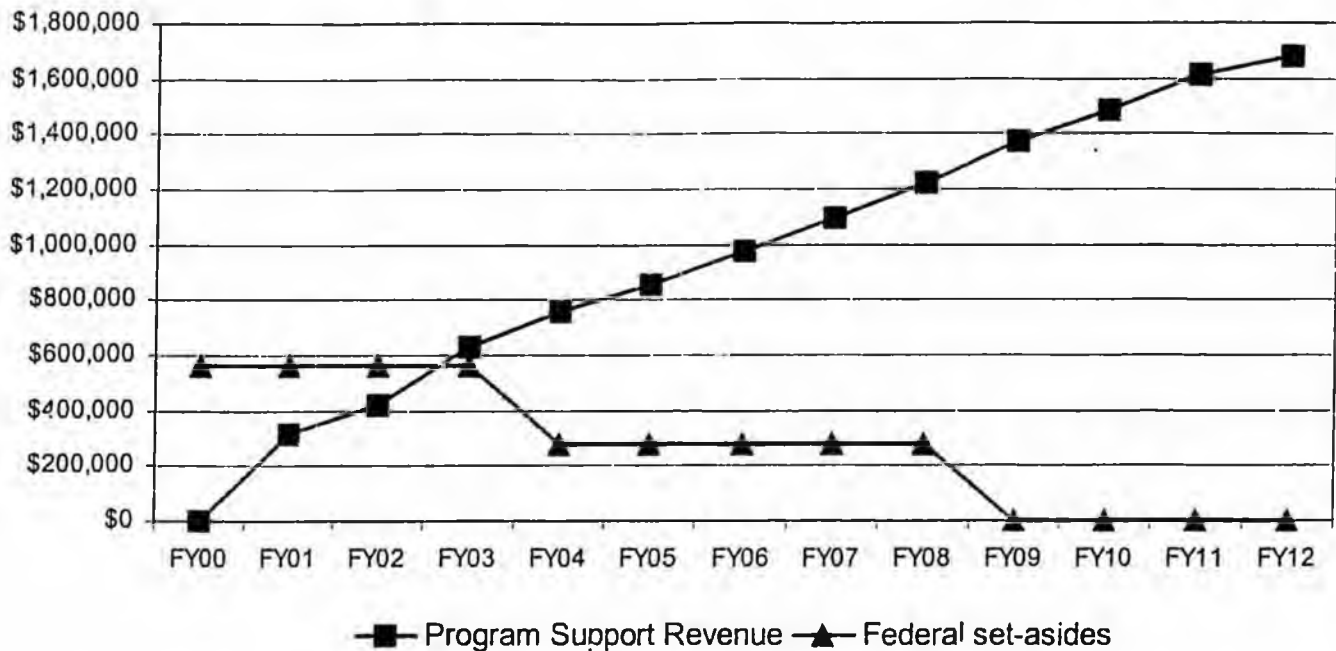
### **Why is bonding authority needed?**

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.

## 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.

**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.

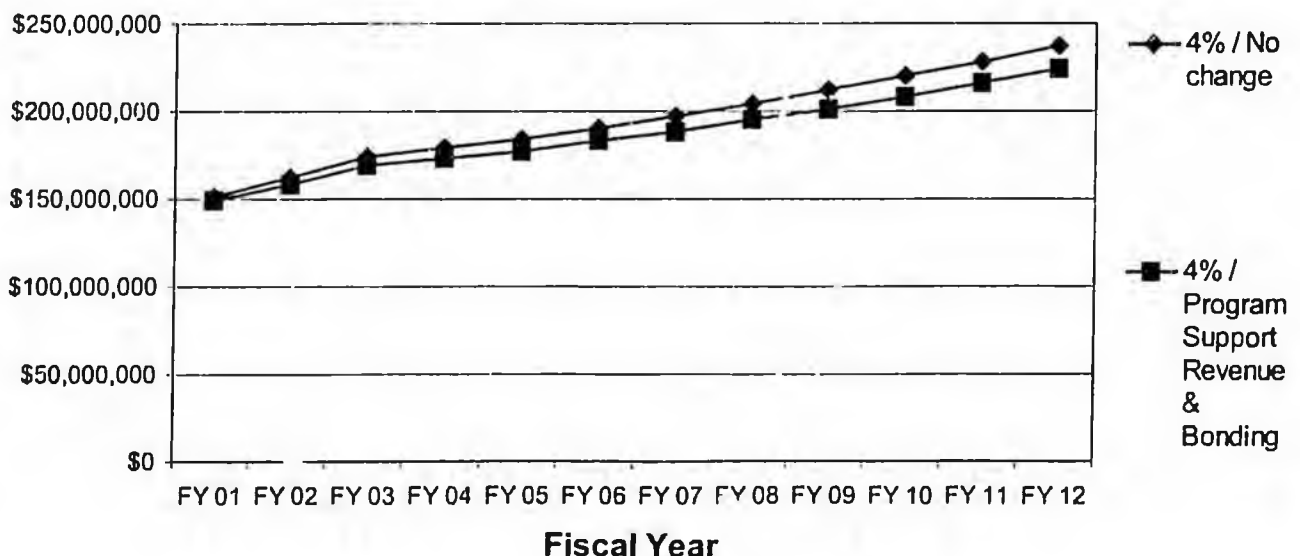
**How will these changes affect the terms of the loans DEC makes to communities? Will costs go up?**

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.

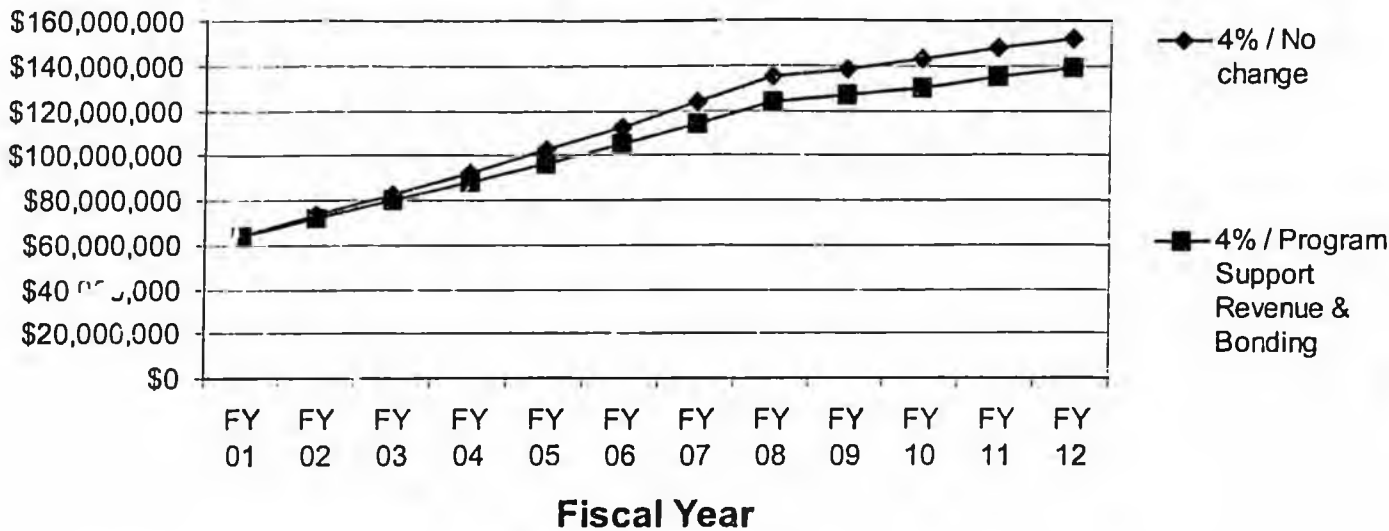
**What about the impacts on the amount of money available to loan out? Will the changes reduce the rate of growth of the funds?**

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



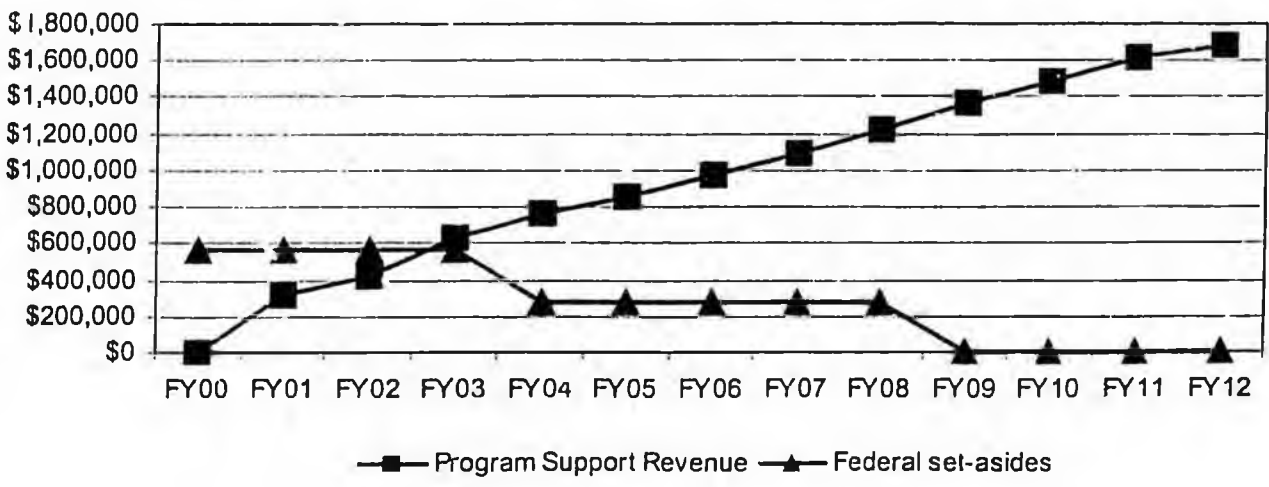
### What else needs to happen?

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.