

**HB**

**304**

TONY KNOWLES, GOVERNOR

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**DEPT. OF ENVIRONMENTAL CONSERVATION**

OFFICE OF THE COMMISSIONER

February 23, 2000

The Honorable Bill Williams  
Chairman, DEC Finance Sub-Committee  
Alaska State House of Representatives  
Capital Building, Room 502  
Juneau, AK 99801

Dear Representative Williams:

During yesterday's meeting with the House Finance sub-committee we discussed how the department might reduce it's FY 2000 authorized general purpose fund level by 251.6 for FY 2001. You requested that the department provide proposals in advance of hearings. The following describes the department's proposal to meet your reduction target. In response to Representative Kott's comments, additional information is also provided on general purpose fund savings that can be realized by the Clean Water Fund bonding authority currently in place and Alaska Drinking Water Fund bonding as proposed in HB 304.

**Proposed Reductions**

The Governor's proposed FY 2001 budget includes a 111.6 general fund reduction below the FY 2000 authorized budget. The department recommends that the sub-committee accept these savings.

In addition to the 111.6 general fund reduction, 140.0 in general funds could be reduced from the Governor's proposed FY 2001 budget by authorizing a fund source switch in the air permit program. 80.0 can be saved by funding regulation work from the Clean Air Protection Fund. 60.0 can be saved by funding enforcement work from the Clean Air Protection Account. These reductions achieve the sub-committee's target without further reducing services.

**Drinking Water Fund Bonds**

HB 304 would allow the department to sell bonds from interest earned on the Drinking Water Fund to be used as state match for future federal grants. The current interest on the Drinking Water Fund

is approximately 600.0 which, under the bonding authority in HB 304, could be turned into general fund savings beginning in FY 2001. Representative Kott expressed interest in possibly using these savings to support a rebuild of the food safety program

Sincerely,



Kurt Fredriksson  
Acting Deputy Commissioner

cc: Representative Eric Croft  
Representative John Davies  
Representative Joe Green  
Representative Pete Kott  
Representative Beverly Masek

1-GH2031\A.5  
Cook  
2/25/00

A M E N D M E N T

OFFERED IN THE HOUSE

BY REPRESENTATIVE ROKEBERG

TO: HB 304

1 Page 8, line 23:

2 Following "assistance to":

3 Insert "organizations that are not exempted from regulation under  
4 AS 42.05.711(d) and that provide water service under a certificate of convenience and  
5 necessity from the former Alaska Public Utilities Commission or the Regulatory Commission  
6 of Alaska and to"

7 Delete "municipal"

8 Page 9, line 18:

9 Delete "A"

10 Insert "An organization that provides water service under a certificate of convenience  
11 and necessity or a"

12 Page 10, line 9, following "section.":

13 Insert "The regulations may establish different standards, criteria, procedures, and  
14 requirements for loans to organizations that provide water service under a certificate of  
15 convenience and necessity from those established for loans to municipalities."

**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  
 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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## 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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# STATE OF ALASKA

**DEPT. OF ENVIRONMENTAL CONSERVATION**  
OFFICE OF THE COMMISSIONER

**TONY KNOWLES, GOVERNOR**  
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February 8, 2000

The Honorable Peter Kott, Chair  
House Judiciary Committee  
Alaska State Legislature  
Juneau, AK 99801

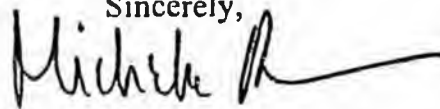
RE: Request for Hearing on HB 304

Dear Representative Kott:

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 Dan Easton at 465-5135. Thank you for your consideration.

Sincerely,



Michele Brown  
Commissioner

Enclosures

**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

**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.

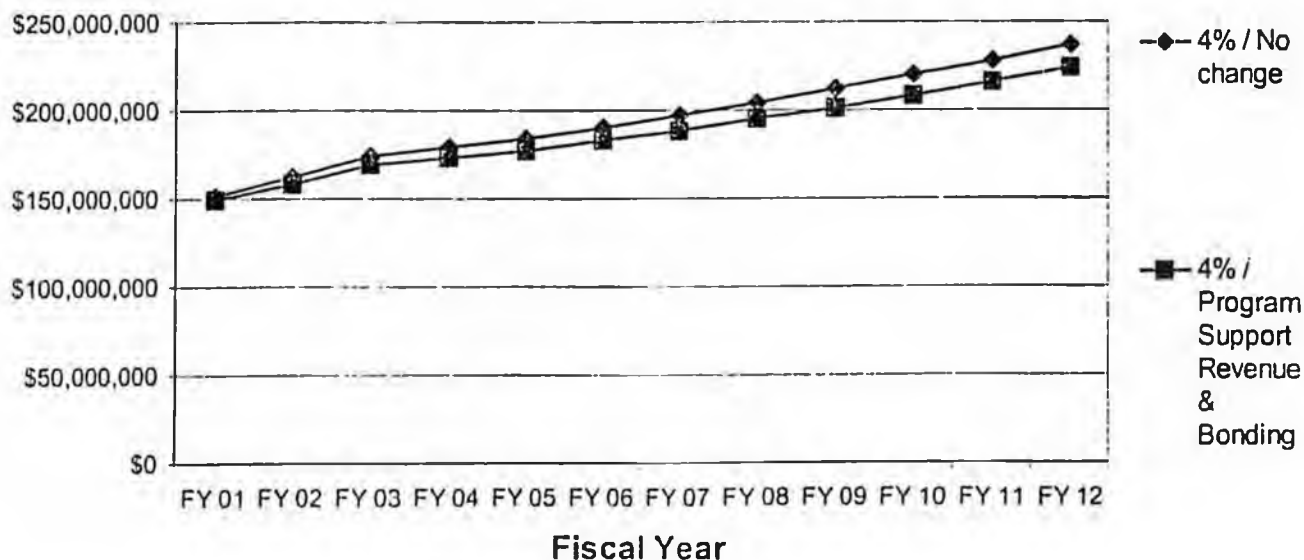
**How will these changes affect the terms of the loans DFC makes to communities? Will costs go up?**

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.

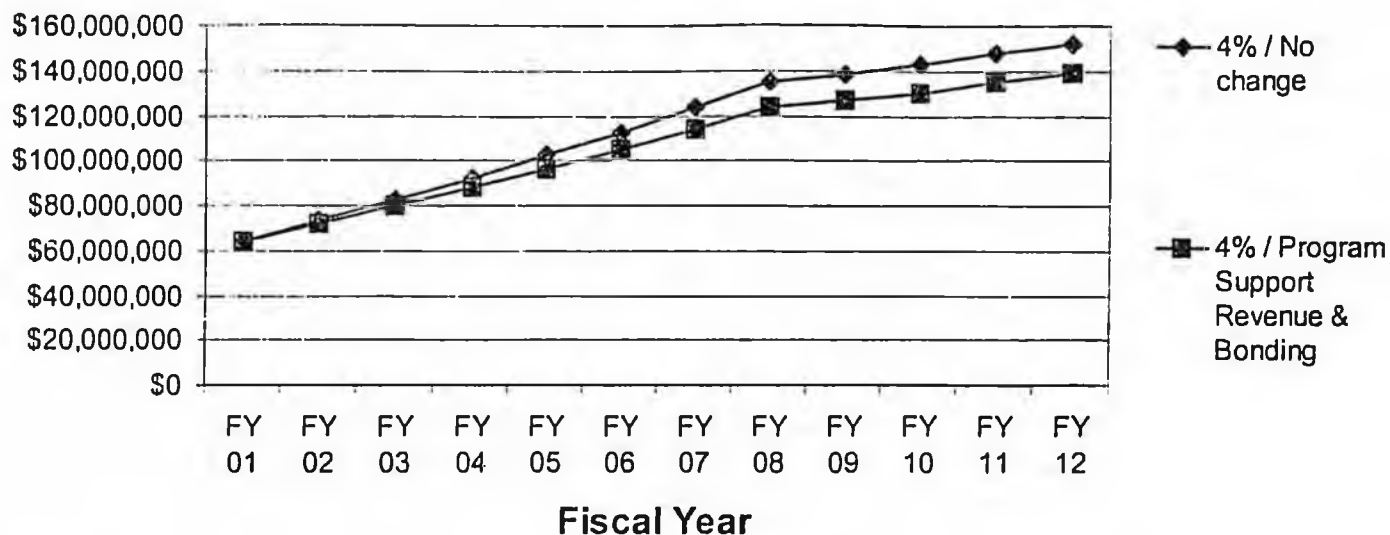
**What about the impacts on the amount of money available to loan out? Will the changes reduce the rate of growth of the funds?**

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



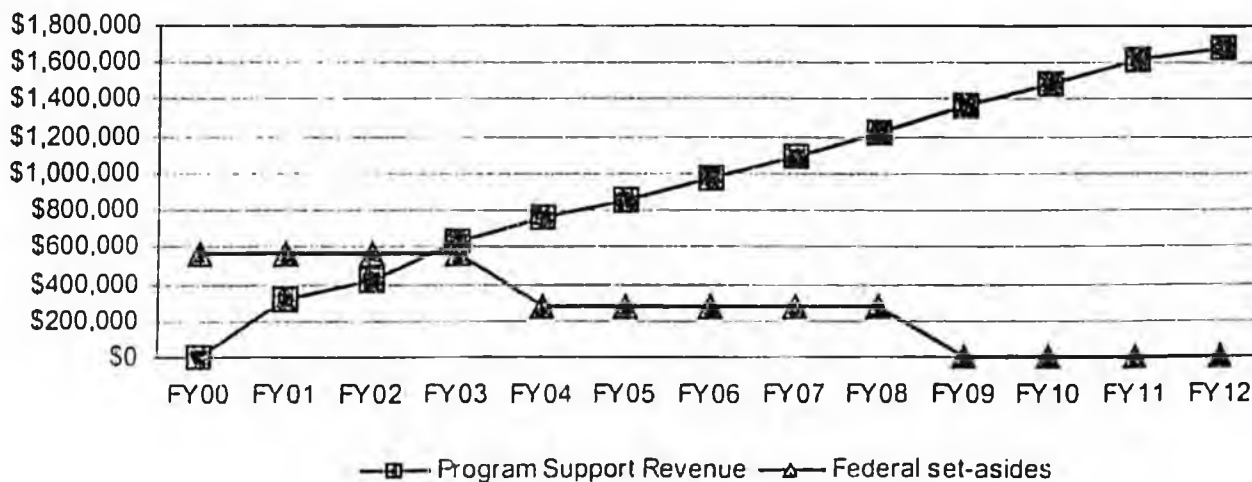
#### What else needs to happen?

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 fiat 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.